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‘The Developmental State,’
the evolving international economic order,
and Vietnam.

by

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Abstract

The developmental state has been widely credited as the most important factor behind the East Asian post-war “miracles.” Indeed, it is generally seen as having helped to shift the weight of the international economic order towards ‘the East.’ However, the dominance of processes associated with ‘globalisation’ at the beginning of the twenty-first century is commonly thought to have substantially undermined the viability and potential of this state-led development model. Yet, the recent rapid transformation of some emerging economies, notably China and Vietnam, suggests that this economic development model may remain important even in an era of globalisation. Taking Vietnam as a case study, this thesis argues that despite significant differences in the actions, capacities and ideological orientations between the Vietnamese state and other states in the region, the political leaders of Vietnam have followed the interventionist, state-led pattern of development that is connected to the successful East Asian developmental states. As a consequence, and on the basis of the original empirical research undertaken here, the thesis further argues that despite the potentially transformative impact of processes associated with globalisation, the developmental state, or the state-led development model, remains a viable, influential, and persistent feature of the development processes in Vietnam.

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List of Abbreviations

CPS	Central Planning System
CEC	Central Executive Committee
CPV	Communist Party of Vietnam
CSV	Civil Society of Vietnam
DAH	Department of Animal Health
DCP	Department of Cultivation Planning
DLB	Department of Livestock Breeding
DRV	Democratic Republic of Vietnam
DS	Developmental State
EVN	Vietnam Electricity Group
FAO	Food and Agriculture Organisation
FDI	Foreign Direct Investment
FGP	Flying Geese Pattern
GDP	Gross Domestic Product
GSO	General Statistics Office
GVC	Global Value Chain
IMF	International Monetary Fund
LEDI	Law on the Encouragement of Domestic Investments
MARD	Ministry of Agriculture and Rural Development
MIA	Ministry of Internal Affairs
MIC	Ministry of Information and Communications
MNC(s)	Multinational Corporation(s)
MOF	Ministry of Finance
MOIT	Ministry of Industry and Trade

MPI	Ministry of Planning and Investment
MRD	Mekong River Delta
NA	National Assembly
NCAP	National Centre for Agriculture Promotion
NEP	New Economic Policies
NICs	Newly Industrialised Countries
NP	National President
ODA	Official Development Assistance
PetroVietnam	Vietnam National Oil and Gas Group
PGS	Party General Secretary
PM	Prime Minister
PNA	President of National Assembly
PPD	Plant Protection Department
RRD	Red River Delta
SEM	Socialist Economic Model
SOCB(s)	State-owned Commercial Bank(s)
SOGC(s)	State-owned Group(s) and Corporation(s)
SOE(s)	State-owned Enterprise(s)
T&G	Textile and Garment
VFF	Vietnam Fatherland Front
Vinacomin	Vietnam National Coal-Mineral Industries Holding Corporation Limited
Vinatex	Vietnam National Textile and Garment Group
VND	Vietnam Dong
WTO	World Trade Organisation

Introduction

The East Asian region has become famous for its rapid, sustained and largely unexpected economic development.¹ Indeed, it is now commonly thought that the entire centre of what is considered to be an increasingly integrated global economy is shifting inexorably from Western Europe and North America toward East Asia (Berger, 1998; Gilpin, 1995). This is not only one of the most important developments of recent times, but it poses a challenge to the way many people - especially in 'the West' - have thought about economic development.

One of the most striking and ubiquitous features of the rapid development process that has spread throughout most of the East Asian region has been the pivotal role of the state. For many outside observers, the possibility that East Asian development might owe something to the actions of states 'interfering' in economic processes is difficult to accept, as it flies in the face of much of the liberal economic orthodoxy that is associated with the so-called 'Washington consensus' with its emphasis on market-oriented and conforming policy prescriptions (see Williamson, 1990; 1994). And yet that is precisely what seems to have happened. Many scholars argue that the entire East Asian developmental experience cannot be understood without acknowledging the critical role of many of the region's states in planning or attempting to coordinate the course of economic development (Johnson, 1982; Wade, 1990; Amsden, 1989; Haggard, 2004).

¹ Here we take the definition of economic development which, according to Tsai and Cook (2005: 61-2), has been mostly used in the developmental state literature - except for Deyo (1987), and mainly refers to such economic indicators as growth rates, industrial and agricultural outputs, volume of exports, etc. Tsai and Cook (2005: 62) also mentioned the non-economic attributes of development such as 'increasing rates of literacy and relative equality of income distribution' which have also been the achievements of East Asian countries in their hey days.

While this ‘revisionist’ literature has begun to gain much greater acceptance as an important part of the explanation of the region’s historical development (even in former bastions of liberal economic orthodoxy like the World Bank (1993)), some of those who acknowledge the role of the state as part of the region’s earlier development remain sceptical about the potential for states to play a similar role in an era associated with ‘globalisation,’ in which the state’s power and autonomy is frequently thought to be undermined by powerful transnational forces (Cerny, 1997; 2000). The possibility of state retreat would seem particularly significant in the late developing ‘emerging markets’ which must try to establish themselves in an international political-economy that is dominated by more powerful economic and political actors, such as the major Western states and international financial institutions. And yet peripheral development continues, and states in East Asia continue to try and direct its course. This possibility is most obvious and consequential in the case of China (Bagchi, 2000; 2004; 2006; Riskin, 2008), but it is also, I shall argue, a pivotal part of the development process in the country which forms the principal focus of this thesis: Vietnam.

The key question this thesis explores is whether the actions of the Vietnamese political elites can be conceptualised as following a pattern that was pioneered by countries like Japan with what is now known as the ‘developmental state’ (DS). The thesis will argue that while there are significant differences in the actions, capacities and ideological orientations of the state in Vietnam compared with other states in the region, the Vietnamese political leaders have nonetheless followed the interventionist, state-led pattern of development that is associated with Japan and other East Asian economies including South Korea, Taiwan and now China (Kohli, 2004). As this thesis will demonstrate Vietnam has been fortunate in that it possessed the majority of the pre-conditions which favour the emergence of a DS. Consequently, although there are important and revealing differences in the Vietnamese

experience, they are broadly in keeping with the DS tradition and help to account for Vietnam's recent economic expansion and integration into the global economy. Even some of Vietnam's failures are best understood, the thesis argues, as flowing from an interventionist tradition and the desire of its political elites to play the sort of role we associate with a successful DS.¹ The thesis therefore concentrates on analysing whether, to what extent and how Vietnam's political elites have anticipated, managed, implemented and contributed to the development course of the country. The rest of this introduction discusses the nature of the DS and its relationship to globalisation, before detailing the content of the chapters that follow.

The developmental state in an era of globalisation

Developmental state theory focuses primarily on an economic development model which emphasises the influential, determining and leading roles of the state in the course of economic development and transformation of a country. Although having its roots in ideas about economic nationalism in the nineteenth century, this theory is principally associated with Chalmers Johnson (1982) who used it to explain the rapid economic development of Japan in the Post War era. It has subsequently been developed by a number of authors analysing the cases of newly industrialising and emerging economies (Amsden, 1989; Wade, 1990; Evans, 1995; Leftwich, 1995; 2000; 2005; 2008; Kohli, 2004). As one of the distinctive and pervasive features of the twentieth century was the focused and deliberate promotion of national development, especially in the developing world where 'the planning process became

¹ Here and throughout the thesis we understand state intervention or interventionist actions in terms of the intervening actions of the state aiming at promoting economic growth and development rather than just correcting the market failures as the basic functions of the ideal liberal state. In this sense, state intervention means a variety of state actions intervening in the allocation of economic resources and private economic decision making by the state's intentional alteration of incentives. For more of this, see (Karagiannis, 2001) for 'modern interventionism' or see (Johnson, 1999: 48) for the use of 'industrial policy.'

the central mechanism for defining and shaping developmental goals and activities' (Leftwich, 2005: 576-7), it is important to make clear from the outset that the type of state under consideration in this thesis is the developmental state. Developmental states have distinctive features and characteristics which are detailed in chapter 2, and which are different from a state with a general economic development plan. The stress on the crucial role of the state in economic development and transformation is nonetheless at odds with the dominant liberal orthodoxy in international political economy (Friedman, 2002; Friedman and Friedman, 1980; Raymond, 2009, Mises, 1998), with its associated focus on processes connected with globalisation and the concomitant expectation that the role of the state in the economy is inexorably diminishing, and replaced with market-based mechanisms for wealth allocation and economic decision making that are deemed to produce more efficient outcomes. As a consequence, many observers doubt the continuing validity of the DS theory and the viability of the DS approach to economic development in the current context of globalisation.

Indeed, globalisation has posed many challenges to states in general and developmental states in particular. Globalisation may be defined as 'the international integration of markets in goods, services, and capital,' and thus can be seen as a process of greater interdependence and interpenetration among national economies throughout the world (Garrett, 2000: 941-2). However, concerning its impacts on the state, this definition cannot encompass all implications of this process. More profoundly, globalisation should be understood as 'a process (or set of processes) which embodies a transformation in the spatial organisation of social relations and transactions - assessed in terms of their extensity, intensity, velocity and impact - generating transcontinental or interregional flows and networks of activity, interaction, and the exercise of power' (Held et al, 1999: 15). The most important feature of

globalisation here is that it is a process (which is not necessarily ‘natural’ or ‘inevitable’) wherein the most powerful states exercise their power (Beeson, 2004). This has important implications for less powerful states who are effectively ‘rule takers’ rather than ‘rule makers’ and influences the dynamics of globalisation and the context in which such states must operate (Drezner, 2007).

Although technological innovation has helped to accelerate and deepen the integration process, the process of globalisation itself is not an inevitable or contingent product caused by technological advancements (Beeson, 2004). On the contrary, greater economic integration has been driven by the political initiatives of some powerful states in the Post War period, especially, the United States. Those powerful states have intentionally and actively designed new institutions to support and facilitate a move toward a new order of a more ‘open,’ internationally interconnected and interdependent global economy, and encouraged and promoted economic integration across national borders (Beeson, 2004). International institutions such as the World Trade Organisation (WTO), International Monetary Fund (IMF) and World Bank have been instrumental in promoting international integration (Woods, 2006). Despite differences in scales and functions, those institutions share a set of rules supporting the integration of national economies into the international economy through liberalisation of trade, finance and investment, thus encouraging free market mechanisms and, ultimately, minimising state intervention in the allocation of economic resources and private economic decision making (Garrett, 2000).

The significance of these institutions is that they make it potentially difficult for states to resist their global economic rules and cause the possible diminution of state power in leading the course of national development. Nation-states around the world have been urged or even voluntarily attempted to comply with this institutionalised set of rules. This is because

political elites believed they could realise immediate benefits via integration, despite the fact that their longer-run advantages are still debatable (Garrett, 2000).

As a consequence of these claims about processes associated with globalisation, many have supported the view that developmental states will become increasingly irrelevant and powerless in such an environment. Cerny (1997; 2000), for example, argues that in the context of increasing global competition a state will find it more difficult to act developmentally or strategically. This is because there is less space for states to operate and carry out their developmental strategies, due to the possible erosion of their political autonomy and policy capacity when they are involved in global economic and political processes (Cerny, 2000). More specifically, Anderson (1999: 10) points out that by joining WTO or abiding by GATT rules, a country will lose most traditional instruments of trade policy to control and protect its domestic market, such as import quotas or tariffs. Additionally, WTO members cannot promote exports by employing effective exchange rate for export or by using direct subsidies as credit or tax or tariff rebates for their exporters (Adelman and Yeldan, 1999).¹ Meanwhile, antidumping has remained a protective tool that developed countries often use to prevent “unreasonably” cheap commodities from developing countries.² Thus, WTO members forgo many policy instruments that they once used to both protect their domestic markets and gain more competitive advantages internationally.

Although states are facing many challenges created by globalisation, there have been still a significant number of scholars arguing for the possibility of the state’s developmental functions in leading the course of economic development. For example, Cherry (2007) and

¹ IMF membership rules require states to maintain unified exchange rates. This means each state has to use the same exchange rate for both exports and imports. However, this practice has also been subverted sometimes. In addition, states can use the choice of targeting exchange rate stability rather than price stability as an important policy tool, which fits within a ‘liberal’ policy framework.

² An exporter will be deemed to ‘engage in dumping’ in the world market, if it sells its goods in the international market at prices lower than the domestic prices of the goods. For more of the challenges of globalisation, see (Anderson, 1999).

Hundt (2009) contend that the DS remained an influential and important component of Korea's post-crisis development after 1998. In addition, the Chinese state still uses foreign exchange rate controls to boost its exports, which help China keep the value of its currency low thanks to its 'hoarding dollar reserves' (Bremmer, 2009: 53). Additionally, Dent (2003: 461) argues that the Taiwanese state capacity was upgraded rather than weakened, by pointing to its 'smart approaches to economic liberalisation' in which it could even realise opportunities from the liberalisation process and actively lead its enterprises to utilise those opportunities.

Similarly, there is a line of argument both supporting the DS theory and stressing the even greater need for more capable states or developmental states for the developing world in the current global context. Mark Beeson (2006), for example, is such an advocate when pointing out that in the context of increasingly integrated international economy - where capital flows from the international financial markets are very potentially instable - there may actually be a greater demand for governments' involvement in managing and overseeing the way for vulnerable economies to integrate into the international economy. Likewise, Jomo (2001: 480-1) finds that Southeast Asian countries have proved the value and contribution of state-led structural transformation and industrialisation which have outperformed what might have been expected if only relying on market forces and private sector initiatives. Therefore, generally for developing economies, 'an effective, relatively independent and non-corrupt developmental state is still a potentially critical part of economic progress and mechanism for mediating global forces' (Beeson, 2006: 349-50). This echoes Leftwich's (2005: 595) stress on the importance of an effective state to direct the course of economic growth and his (2008: 17) conclusion stating that 'the fundamental requirement' for economic growth and poverty reduction is, 'at least, an effective state and, preferably, a developmental one.' Indeed, capable

states even have the potential to take advantage of globalisation to fully utilise their distinctive advantages in a larger international market, and thus promote their economic growth and development (Weiss, 2003a; Dent, 2003).

Given that the debate on the impact of globalisation on the developmental state remains contested and inconclusive, there are even greater grounds for investigating new case studies that might contribute to our understanding of this potentially important phenomenon. It is precisely such a task that this dissertation seeks to undertake through an analysis of Vietnam, a country that despite its growing importance remains relatively under-analysed.¹

Central research question

This thesis focuses on studying the case of Vietnam from the DS perspective. To be termed ‘developmental’ a state must have made significant economic achievements (Howell, 2006). The case of Vietnam has satisfied this first requirement, because it has maintained an average growth rate of real GDP of 7.3% annually over two decades since 1990 (GSO, 2012), and is valued by the World Bank as ‘one of the best performing economies’ over the last decade with a ‘remarkable success in reducing poverty.’² Given the current competing arguments for and against the viability of the DS in the context of globalisation, investigating Vietnam’s development process and the Vietnamese state’s role in the transformation of its economy is an especially important issue, because it provides important insights into the possibility of a state continuing to play influential and strategic roles in leading the course of national development, and generally into the development issues in the context of globalisation. As a late developer ‘transition’ economy, Vietnam provides a useful case study of the dynamic

¹ There are, of course, some important exceptions to this general trend such as Fforde and Vylder, 1996; Gainsborough, 2003; Kerkvliet, 2005; Masina, 2006; etc.

² Online available at:

<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/VIETNAMEXTN/0,,menuPK:387575~pagePK:141132~piPK:141107~theSitePK:387565,00.html>. Accessed: May 2011.

interrelationship between state action and economic performance in the process of increasing international economic integration. As such, the Vietnamese case can help to provide broader policy lessons of late development that can help to provide insights for studying other late developer economies in Asia and some other regions.

The overall task of this thesis is to investigate the role of the Vietnamese state in the course of economic development and transformation in Vietnam. To do this it is necessary to examine Vietnam's developmental experience through the lens of developmental state theory, because at first sight the fact that Vietnam's significant economic achievements have gone along with the Vietnamese state's general development direction of maintaining the decisive role of the state sector seems to have conformed to the main principle of this theory. Specifically, the thesis will investigate the following two main sub-questions:

- How do the constituent components of the Vietnamese state compare with the key features of a developmental state archetype?
- How has the economic role of the Vietnamese state developed in strategic sectors?

The answers to those questions will draw the fully detailed panorama of the Vietnamese state under the perspective of developmentalism.

Previous works on Vietnam

In the past, Vietnam seemed to be best-known in the world for its participation in two wars of resistance. However, since the reform of 1986 it has received much more attention from scholars and policymakers because of its rapid economic development. Fforde and Vylder (1996) were among the earliest writers on Vietnam's reforms. Looking closely at the transition of Vietnam 'from plan to market' during the decade following the reform of 1986, they argue that this move was 'largely a bottom-up process,' and the Vietnamese state's

policies were ‘responsive, rather than proactive’ (Fforde and Vylder, 1996: Introduction). Echoing this, Kerkvliet (2005) found that the driving force behind Vietnam’s decollectivisation was not the state, but rather state policies were merely responsive to the pervasive resistance of farmers to the contemporarily flawed and inefficient economic model of Vietnam. These accounts, although rightly uncovered the nature of the “reform” in Vietnam, focused mainly on the process leading to the crucial change of the economic model in Vietnam. This thesis shows that since the reform was declared in 1986, the Vietnamese state has had many proactive policies to develop both agriculture and industry effectively.

There have also been a number of other authors writing on post-reform Vietnam. One expert on Vietnam is Martin Gainsborough, who exhaustively analysed the case of Ho Chi Minh City in the 1990s to characterise the ‘changing political economy of Vietnam’ which highlighted many negative state activities ranging ‘from speculation to smuggling’ (Gainsborough: 2003, 54-63). Although this criticism correctly identified many problems in Vietnam’s politico-economic system, it was not the whole story. Most importantly, perhaps, it paid relatively little attention to the driving force behind the country’s development. If the system was as inefficient as Gainsborough implied, how do we account for the development and transformation process in Vietnam? By contrast, Masina (2006: 2-6, 158) analysed the development strategies of Vietnam, and suggested that the developmental state model had influenced the policy thinking of the Vietnamese leadership as the most suitable economic model for Vietnam, although international financial institutions also exerted considerable influence on the Vietnamese state. One of the major contributions of this thesis is to build on these pioneering analyses and elaborate the roles of the Vietnamese state in the development process of Vietnam since the reform in 1986. Importantly, this analysis will be informed by the DS approach to identify the state’s developmental features and initiatives.

Structure of the thesis

In addition to the introduction and conclusion, this thesis comprises six chapters. The first two chapters focus on reviewing the developmental state literature and building the theoretical and analytical framework for investigating the case of Vietnam. The last four chapters concentrate on four different aspects of the Vietnamese state and its relations to the economy in the course of economic development and transformation. The purpose of these four chapters is to explore and detail the nature of the Vietnamese state; to identify the central intervening mechanism that the Vietnamese state has used to manage the development course; and to explain the concrete roles and contribution of the state in the country's two main economic sectors: agriculture and industry.

Chapter 1 is devoted to reviewing the related literature. I firstly identify the theoretical origins of the developmental state concept by focusing on the works stressing the developmental functions of the state by various authors before the concept of “developmental state” was systematically conceptualised by Johnson (1982). Then I analyse the development of this concept by the first three figures (Johnson, Amsden and Wade) who investigated the three archetypal examples of the DS (Japan, South Korea and Taiwan, respectively), before looking at the extension of this concept in both depth and width by various authors drawing on the experience of those three archetypes and other successful DS acolytes. The last section of this chapter concentrates on accounts analysing the continuity, persistence and transformation of the DS in the context of globalisation.

Chapter 2 elaborates the key pre-conditions for a DS to emerge and synthesises the most important elements and features of a successful DS, so as to form the theoretical and analytical framework for the further investigation of the case of Vietnam in subsequent chapters. An analysis of the historically distinctive nature of cultural, social and political

values and conditions in East Asia is provided, because this is the region which has been considered as the “birthplace” of the DS. The chapter firstly summarises the conditions facilitating the formation and emergence of a DS, then, by reviewing the works of the key authors, such as Johnson (1982) with a four-element ‘sketchy’ model, Leftwich (1995; 2000) with a more detailed model comprising six components, and some additional features of the DS developed by Evans (1995) such as embeddedness and selectivity, this chapter arrives at a ten-part model of the DS as the most encompassing set of elements and characteristics of an ideal-typical DS. Together with the necessary preconditions for a DS, this archetypal DS model provides the theoretical and analytical framework for investigating the case of Vietnam under the DS perspective. Lastly, this chapter specifies the methodology used for studying the case of Vietnam that includes the areas of empirical focus and some important notes when investigating this specific case.

Based on the framework built in chapter 2, the subsequent chapters look in depth at the case of Vietnam to try to qualitatively locate the position of the Vietnamese state in the framework of developmentalism. Besides showing that Vietnam enjoyed some key preconditions in favour of the formation and emergence of a DS, chapter 3 provides an overview of the Vietnamese state through the prism of the DS by qualitatively analysing and comparing its constituent components with those of the DS ideal type. It suggests that the Vietnamese state has had more convergence toward, rather than divergence from, the DS model, and that the legacies of the country’s history and the central planning have actually facilitated the Vietnamese state’s gradual move toward a market economy while remaining essentially developmental in orientation. However, this chapter also emphasises that the very divergent (from the DS) nature of the Vietnamese bureaucracy is likely to be the main obstacle to the further and sustainable development of the country.

Chapter 4 analyses the three most important component reforms of Vietnam's overall reforming process: reforms of state-owned enterprises (SOEs); of state-owned commercial banks (SOCBs); and of state budget process. One commonality of these partial reforms is that the Vietnamese state, rather than dismantling the SOEs and SOCBs and decentralising the state budget process, has intentionally, persistently and subtly kept, recentralised and strengthened them as the key tools for implementing state developmental investment strategies. This general principle of the Vietnamese state's intervention mechanisms is illustrated in the close reciprocal links between the large SOEs and the state studied in the last section of this chapter.

Chapter 5 analyses the transformation of Vietnam's agriculture since the country's reform in 1986, more precisely since 1989 when the agricultural cooperative system was radically dismantled, to identify factors that have contributed most to the development of this economic area. By highlighting the whole development process of agriculture since 1945, with the division of the pre- and post-1989 periods, the first sections show that the recent achievements of Vietnam in agricultural development and transformation are very significant. The seemingly easy achievement of Vietnam's agriculture has intuitively created the feeling that Vietnam is simply exploiting its 'comparative advantage' in agricultural production. However, the third section points out that Vietnam has faced numerous difficulties in and obstacles to its agricultural development and that without the developmental roles of the state this economic sector would have been far from the current success. To justify this point, the last section elaborates a series of actions that the Vietnamese state and its agencies have taken in coping with the obstacles and transforming the country's agriculture.

Complementing this analysis, chapter 6 looks at the other major sector of the economy, industry. In the same manner, the first section reviews the industrial development process,

with two different periods of pre- and post-reform, which shows that Vietnam's economy since the reform has gained significant achievements in developing industry, changing the structure of the whole economy and of the industry itself towards those of a more industrially advanced economy. Locating the Vietnamese state's roles in the industrial sector, the second and third sections find that the Vietnamese state has largely played the roles of what Evans (1995) described as 'midwifery' and 'husbandry' roles in general by adjusting its legal system toward a more favourable environment for business, while strategically and selectively supporting a number of key and prioritised industries for both the short- and long-term development of the country. While showing clear links between the supporting policies of the state and positive economic outcomes, the last section also points out some defects and failures of the most successful industry of Vietnam, textile and garment, the area that Vietnam has had clearest advantages, and might be the easiest for such beginning industrialisers as Vietnam due to the industry's relatively low-entry barriers. This raises concerns about the quality of industrial strategy formation and implementation of Vietnam, the possible consequence of the Vietnamese state's failure in meeting the criterion of a successful DS's competent and dedicate bureaucracy.

The conclusion of the thesis reviews all the findings about the nature of the Vietnamese state under the perspective of the DS. It suggests that Vietnam has indeed had a developmental state in its post-reform era, although a number of components have been rather weak in some areas of the economy. Essentially, its developmental goals and processes have largely been 'politically-driven' and mainly implemented by its 'developmentally-driven' state agencies. In addition, the conclusion also highlights some particular characteristics of the development trajectory in Vietnam, due to its distinctive historical legacies and the international context in which its development took place. Furthermore, it shows how

Vietnam's experience plays in to the debates about globalisation, besides suggesting the possible sustainability and viability of the DS model in the current international context. Finally, the conclusion proposes some lessons that can be offered to other underdeveloped countries in an era of globalisation and some directions for future researches.

Chapter 1: Conceptualising the Developmental State

The history of the academic discipline of International Political Economy (IPE) in the West has been marked by three major debates - interdependence, declining American hegemony, and globalisation (O'Brien and Williams, 2007: 32).¹ Recent research in IPE has been informed by the current debate on globalisation, within which four issues have been discussed by scholars and practitioners, namely, the changing role of the state, regionalism, inequality and governance. A central feature of these debates has been the role of the state.

Indeed, debates about the role of the state have never ended. During the 1970s and 1980s attempts to explain the 'economic miracles' of Japan and the Four Asian 'Tigers' helped generate new interpretations of these emerging phenomena and gave birth to a new perception of the state, the 'Developmental State.' By the early 1990s even such a loyal advocate of free markets and minimal states as the World Bank had to admit the significant role of the state in creating high growth rates and increasing living standards of these East Asian countries (World Bank, 1993; Howell, 2006). Thus, 'rethinking the state' was the main theme of the 1997 World Development Report which reaffirmed the central position of the state in economic and social development (Menocal, 2004; World Bank, 1997). However, since the Asian financial crisis of 1997-98, a number of scholars and practitioners became sceptical about the effectiveness of the state intervention and focused more on a self-regulated market economy, downplaying the role of the state. Some scholars suggested that the main cause of the crisis was the intervention of the state whereby political influence was imposed over financial institutions and related to corrupt business practices (McLeod and Garnaut,

¹ Some may view interdependence and declining American hegemony as the same debate rather than two separate ones.

1998). The legitimacy of this economic development model was even largely demolished by the discursive practices of such international actors as the IMF and US Treasury Department that deliberately attempted to redefine states and firms in East Asia as ““corrupt” practitioners of “crony capitalism”” so as to emphasise the market-based values (Hall, 2003: 73).

Consequently, the importance of the role of the state in the process of economic development and transformation has been the focus of intense debates. This continuing interest was partly due to the way some new emerging economies achieved economic development in the Third World. For instance, over the last two decades China has been dramatically transformed, and Vietnam has made significant economic progress. Therefore, the developmental success of East Asia and other emerging countries has suggested that to operate effectively even market-based economies still require functioning and capable states (Amsden, 1989, Dent, 2003, Beeson, 2006).

In the context of globalisation, many scholars have questioned whether it is still possible for the state to continue leading the country’s economic development, or whether the DS is still applicable (Low, 2004). Some even argue that the state is being forced into retreating by processes associated with globalisation (Strange, 1996). Yet many scholars still argue for the role of the state by contending that although the state is changing, its role is transforming in complex ways rather than declining (Cerny, 2000; O’Brien and Williams, 2007: 33). Some even provide evidence for their argument that in spite of the changing global context the structures of state remain resilient (Weiss, 2003a). Obviously, in an era dominated by neo-liberalism, it is more difficult for states to intervene in the markets as they once did. However, it is still insisted that even though the traditional techniques of the DS cannot be used as frequently as they once were, many of the DS’s essential characteristics are still germane, in both policy and academic circles (Beeson, 2000; Gainsborough, 2007; Radice, 2008).

The aim of this chapter is to delineate an overview of the developmental state concept in the history of the IPE discipline. In the first section, we will see that ideas of state-led development have emerged since the 19th century, when List argued for the need for ‘less advanced nations’ to use ‘artificial means’ (the state) to catch up with the advanced nations (List, 1885/1966: 175; Leftwich, 1995). More precisely, the ideas can even be dated back to the 18th and early 19th centuries, respectively, with Hamilton and Raymond favouring the protection of infant-industry (Chang, 2002). Since then, a good number of authors continued either elaborating the possible paths of development for developing countries or interpreting the development of emerging economies. This significantly helps to enrich the literature on the state’s developmental functions.

The second section highlights the conceptualisation of the developmental state, firstly proposed by Johnson (1982) in order to explain the post-war “Japanese miracle” which had not been interpreted adequately by previous explanations. Following Japan, Taiwan and South Korea also made up their economic miracles. The DS theory was again applied to explain those cases with certain development and extension. This can be seen as from Johnson’s (1982) “market-conforming theory” to Amsden’s (1989) “market-augmenting paradigm” and then to Wade’s (1990) “governed market theory.”

After the three first major figures writing on the first successful developmental states in East Asia,¹ the third section shows how the DS concept has continued to be scrutinised by various authors. Two strands in this field appear quite clear. One is attempts to investigate this concept in a more thorough manner in those three developmental archetypes, with some comparison and contradiction to other cases, to find out more common characteristics of the DS prototype, such as Evans (1995) with ‘embedded autonomy’ or Chang (1994) with

¹ Johnson, Wade and Amsden were regarded as the first three figures writing on the DS theory as each of them mainly took one of the three first East Asian miracles as their case studies.

‘institutional adaptation and innovation.’ The other strand shows attempts at testing this theory in other recently emerging economies to see how the states in those countries fitted the theory, trying to discover any new features of those states which could contribute to the developmentalism. Typical for those are Bagchi’s (1987; 2000; 2004; 2006) and Riskin’s (2008) characterisation of China as a DS, Beeson’s (2009) comparison between China and Japan and some overall studies on developmental states in Southeast Asia by Leftwich (1995; 2000); Stubbs (2005); Trezzini (2001) and Abdullah (1995). The diverse embodiments of the DS in different countries have also been the result of the ways different states cope with the impacts of the process of globalisation.

However, as we shall see in the last section, the impact of globalisation process has not always been negative to state capacity. By contrast, it has even benefited and enhanced the state in several aspects. In the cases of once successful developmental states as Taiwan and South Korea, capable states are important as they have to transform themselves to maintain their effective developmental values (Dent, 2003; Cherry, 2007; Hundt, 2009). Meanwhile, for late catching-up economies, the need for more capable states has even become greater nowadays, as tasks are becoming more complicated for states seeking developmental measures in the globalisation context. This need is particularly apparent in the situation of the current global crisis, when even such globalisation creators as the US and Western European states have had to rely on ‘heavy’ state interventionism (Bremmer, 2009). This suggests that capable states still could find ways to cope with new circumstances, to convert challenges of globalisation into opportunities. Hereunder, we will take turn to look at these themes.

1.1. The State Debate

The fact that many states in the world economy have achieved spectacular economic development and transformation has made the accounts explaining them gradually result in the DS concept. Before Japan created its ‘economic miracle’ in the post-war period, many other states had successfully led the economic development processes of their countries. Although their economic achievements were possibly not ‘miraculous’ enough to result in a new school of thought about a special type of state, they were significant enough to produce an abundant amount of ideas on the developmental functions of the state.

As will be seen in this section, the developmental role of the state has been mentioned intensively by a great number of authors. Among them, Friedrich List may be the earliest and is the first to counter contemporary prevailing liberalism by stressing national interests. Marx, the most influential figure over ‘ex-socialist’ countries and current Vietnam and China, is also among the earliest to have a rudimentary notion of the DS. However, the two most persuasive early accounts on late industrialising countries possibly belong to Gerschenkron (1962) with ‘the latecomer effect’ and Akamatsu (1962) with ‘the flying geese pattern’ of industrial dynamics, which explained how late developers could ‘catch up’ with the developed world. Getting closer to the concept of the DS is such writers as Riggs, Jackson and Huntington, who focused on the concentration of power in a ‘bureaucratic polity.’ Also using a variant of the concept is theorists of the Dependencia School, Cardoso and Faletto (1979), with the notion of ‘developmentalist state’ applied to Mexico and Chile. We will now look briefly at those works in order to highlight the pedigree of the DS concept.

An early nationalist theorist

The idea of the DS had occurred long before it was defined and became a widely used category of state in IPE or economic development model in practice. In reality, developmental states, or more precisely, states with developmental functions, had even appeared long before they were named by scholars. For instance, the Netherlands in the sixteenth and seventeenth centuries; Britain from 1560 to 1851; and Germany from 1850 to 1914 are sometimes viewed as developmental states in certain aspects (Bagchi, 2000). In scholarly circles the idea might be dated back to List, an early theorist of economic protectionism, who refuted the contemporarily prevailing arguments on free trade, and exposed ‘the false train of reasoning’ basing on a ‘bottomless cosmopolitanism’ (Tribe, 1988; List, 1909: xliii). List (1909: 295-6) pointed out that the contemporary advanced nations had already used protection measures to enrich themselves and raise their competitiveness to the level that no other state can freely compete with them, then, now they wanted to ‘throw away these ladders’ of their greatness and tried to convince others of the benefits of free trade mechanisms (see also Chang, 2002). Thus, according to a country’s circumstances, especially its development degree, each nation has its own requirements in developing its economy.

Based on national interests List (1909) counters the laissez-faire free trade system, instead, he supports the nationalist economic policy which is based upon ‘the philosophy of protectionism.’ Protection should also be used to develop ‘infant industry.’ This view echoes Hamilton’s and Raymond’s infant industry arguments.¹ However, in List’s opinion, the degree of protection should be selective, with special protection for the most important branches and moderate degrees for other supplementary ones. Thus, when the main branches

¹ The argument was first explicated by Alexander Hamilton, the first US Treasury Secretary (1757-1804), in his 1790 Report on manufactures which suggests that in order to protect the infant industries of America the American state use tariff for a short period until these industries could compete. This argument was then systematically developed by Daniel Raymond (1786–1849). See more in Chang (2002a, b).

of an infant industry are developed well with suitable protection, other supplementary branches will grow around them with less protection (List, 1909: 144-5). From ‘the teachings of the history’ List (1885/1966: 175) strongly argues that less advanced nations have to use ‘artificial means’ to ‘catch up’ with the advanced ones. For instance, in the three-stage development process that a country goes through,¹ it is necessary that the country use the means of commercial restrictions, when it promotes manufactures or fisheries in the second stage (List, 1909: 93). Therefore, the system of protection becomes the most efficient means of promoting ‘true freedom of trade,’ as it helps to create equal terms for late developers when competing with predominating nations (p.103).

The influence of Marxism

Contemporary with List, Marx, a critical theorist focusing mainly on class interests and class struggles, was also among the earliest writers with DS ideas, even if he never described them as such. He is believed to have a basic notion of a capitalistic DS when mentioning the French state under Louis Bonaparte that had a ‘completely independent position’ which had thoroughly been strengthened against the civil society (Marx, 1852: 238; Leftwich, 2000: 155). Although this type of state emerged from the society’s class balance and was seemingly able to insulate from any specific class interests, this state was not ‘free-floating’ as its basic goal was to strengthen the interests of the capitalist class (Leftwich, 1995; 2000: 155).

It is also worth stressing that Marxism once widely influenced almost all countries of the ‘socialist camp.’ Although the majority of them have adopted other political economic

¹ In List’s view, in each stage the country will have to use different measures of development: ‘in the first stage, adopting free trade with more advanced nations as a means of raising themselves from a state of barbarism, and of making advances in agriculture; in the second stage, promoting the growth of manufactures, fisheries, navigation, and foreign trade by means of commercial restrictions; and in the last stage, after reaching the highest degree of wealth and power, by gradually reverting to the principle of free trade and of unrestricted competition in the home as well as in foreign markets’ (List, 1909: Chapter X).

theories since their transition, Vietnam, among a small number of countries,¹ has still claimed to act in accordance with some of the principles of Marxism. Together with Leninism and Ho Chi Minh Ideology, Marxism has been the main “lodestar” for the Communist Party, and thus the state, of Vietnam. Despite having partly adopted some market mechanisms, Marxist Leninism and Ho Chi Minh’s Ideology have remained the main bases for all political economic directions. Like one thread through the process of state building and economic development since claiming independence in 1945, the emphasis on the dominant role of the state in the whole socio-economic system and the decisive role of the state economic sector in the economy have never been neglected (Le, 2005).²

The latecomer effect

Although agreeing with Marx on his dictum stating that a picture of the less developed countries’ future is presented by the industrially more developed country, Gerschenkron, an economic historian, points out a different possible route for ‘backward countries’ to industrialise (Jomo, 2005: 182). Different (but not opposed) to Marx’s notion of industrial revolution and its prerequisites, Gerschenkron (1962: 8-10) conceives industrial revolution simply as cases of sudden considerable increases in the rate of industrial growth, and realises the ‘formidable institutional obstacles’ to the cause of industrialisation. However, he fundamentally objects to Rostow’s (1959) notion of ‘stages of growth’ which requires all countries to follow the same or similar stages in the course of becoming industrial economies. Gerschenkron instead argues that late industrialisers had their ‘effects of the advantages of late industrialisation,’ such as access to new technologies and capital sources from foreign

¹ Some countries having still been loyal to Marxism are China, Vietnam, Cuba, Laos and North Korea.

² In all Party Documents of the Party Congresses since 1986, the role of the state and state economic sector in the economy has always been emphasised. See more in: *Party Documents in the Innovation Period (Congress VI, VII, VIII, IX) on socioeconomic Development* (Le, 2005).

investors so they could use institutional substitutions to overcome the barriers to industrialisation (Jomo, 2005: 185). Thus, for late developers it is the institutions and the strategies that matter most (Mathews, 2006).

Before Gerschenkron's account of the latecomer effect, a lack of developmental prerequisites had mainly been used to explain for the persistence of underdevelopment in the developing world. Thus it had seemed hopeless for the underdeveloped countries in their attempts to transform themselves into industrially developed economies. However, his argument, especially the realisation that later developers particularly need 'a state with developmental functions,' became 'an article of faith' for both policy makers and scholars of development economics (Robertson, 1984, Leftwich, 2000: 156). Gerschenkron's approach firmly stresses the building of new institutions and the pursuit of 'fresh strategies' based on the current situations of particular countries, thus, countries of different degrees of backwardness would also be characterised by different processes of industrialisation (Mathews, 2006; Jomo, 2005: 182). He believes that the prerequisites are not absolutely necessary, as in the course of development, when a country has overcome the formidable institutional obstacles and been set for industrialisation, it would find institutional substitutes that ensure a breakthrough (Jomo, 2005: 185).

The 'flying geese pattern' of less-advanced countries

At the same time as Gerschenkron, Akamatsu (1962) developed a historical pattern of economic growth in developing countries, which took into consideration the mutual interactions between the developing and advanced economies. He outlined seven overlapping development stages of developing countries in connection with advanced economies, and

depicted the processes of the development course of developing countries.¹ More specifically, he formulated this development course into a historical theory called the ‘flying geese pattern’ (FGP) of industrial development in developing countries, which explains development after a less-advanced economy participates in an international relationship with the advanced ones (Akamatsu, 1962).

The FGP itself has several forms. One is the fundamental form that describes how consumer goods and capital goods form a FGP order in three or four different stages. Another is the FGP from crude goods to elaborate goods, which illustrates both the industrial development of less-advanced countries, and the development of the export market from a low-income to a high-income area. The last, but most important for late industrialisers, is the form of the development of advanced and less-advanced countries in an FGP (Akamatsu, 1962). This latter form shows the logic of international division of labour in East Asia based on comparative advantages. Thus, less-developed nations in Asia will ‘catch up’ with more-developed countries in the West in a regional hierarchical order, where the production of commoditised goods in the latter would continuously move to the former. Therefore, less-developed countries could be seen as being ‘aligned successively behind the advanced industrial nations in the order of their different stages of growth in a flying geese pattern’ (Ozawa, 2005: 9).

The last FGP of Akamatsu is in line with another account of international development pattern, especially in terms of the overall pattern of change, developed by Vernon (1966) - the international product life cycle theory (Rugman and Collinson, 2006: 598). However, while Vernon’s theory stresses multinational corporations as the main actor in initiating the process,

¹ These processes are heterogeneization; homogeneization; high-degree heterogeneization; high-degree homogeneization; and homogeneization of synthetic materials and natural materials. See more in Akamatsu, K. (1962) ‘A Historian Pattern of Economic Growth in Developing Countries’, *The Developing Economies*, 1: 3-25.

Akamatsu's (1962: 25) FGP emphasises the great influence that the industrial policy of a country has in the international development process.

Getting closer to the DS concept

While Gerschenkron's latecomer effect focused merely on Europe and ignored all other parts of the world, even such a successful case as Japan, many other scholars, besides Akamatsu, attempted to analyse and explain the economic achievements of emerging economies, especially in East Asia. Riggs (1966) and Huntington (1968) could be seen as having some 'seeds' of the DS idea, when they proposed the notion of 'bureaucratic polity' which was later further developed by Jackson (1978) in his writing on Indonesia (Leftwich, 2000: 156). In contrast to modernisation theory suggesting that stable democratic political systems are facilitated by both economic change and development, Huntington (1968) counters that such factors as urbanisation, increased literacy, social mobilisation and economic growth do not always support political development. Although the processes are related, they are distinct. He, therefore, argues for the need for a state to destroy such obstacles to development and modernisation as the existing 'social forces, interests, customs and institutions' (Huntington, 1968: 141-2).¹

Getting closer to the DS concept are Cardoso and Faletto - two theorists from the 'Dependencia School.'² These theorists (1979) described the Mexican and Chilean states as 'developmentalist' states when they attempted to industrialise their economies during and after the war (Leftwich, 2000: 156). In general, those above mentioned theorists, although

¹ Quoted in Leftwich (2000: 156).

² The Dependencia School (emerged in the 1950s) attributed the underdevelopment of Latin America to its dependence on foreign trade and technology, thus suggested a reduction in depending on foreign countries as a necessary way for Latin America to cope with its situation.

from different perspectives, still arrived at the same issue of the importance of the state in leading the course of development and transformation.

However, only since around 1980 have political scientists started paying close attention to states' characteristics and the necessary conditions for a state to effectively carry out its developmental actions (Nordlinger, 1987). For instance, Trimberger (1978) elaborated on the 'historical and structural conditions of developmental states,' when she attempted to elucidate the emerging processes of the third world's 'autonomous and developmentally progressive bureaucratic states' by comparing Japan, Turkey, Egypt and Peru (Leftwich, 2000: 156-7). Apart from some states in the third world, fascism was also described as a type of developmentalism. For example, Gregor's (1979: 304-11) account on the Italian fascism viewed the Italian fascist government as a 'developmental regime' regarding their emphases on the state's role 'as a centralising, integrative and managerial agency,' and the state's main task as rapidly modernising and industrialising 'a retarded socio-economic system.'¹

On the whole, by the end of the 1970s, although a large number of authors had analysed and investigated the developmental roles and functions of the states in different countries, no theorists had systematically conceptualise the developmental state. Except for the 'approximate' account of Cardoso and Faletto on the 'developmentalist state,' no other theorists had explicitly mentioned the 'developmental state' concept, or specified the 'preconditions, characteristics and constitutive elements' of a developmental state (Leftwich, 2000: 157). Although the major role of the state as leading the course of economic development and transformation of a country was frequently mentioned in development economics (Gillis et al., 1992), no authors identified the necessary conditions for such role to be effectively discharged (Green, 1974). The political factors that determine the autonomy

¹ These are requoted in Leftwich (2000: 157).

and capacity of the state were also not fully engaged with, even by the advocates of ‘bringing the state back in’ (Evans et al., 1985). The major limitation in post-war development theory and policy was the ‘failure to analyse and understand the political anatomy of the developmental state’ (Leftwich, 1995; 2000: 157). Therefore, when Japan in the post-war period created its unprecedented economic development, contemporary literature bases seemed to need “something new under the sun” to explain it.

1.2. Theoretical Origins of the Developmental State

Despite voluminous works concerning the role of the state in economic development, no account had arrived at the developmental state concept. Only when Johnson’s (1981) seminal work on Japan was published, was the concept of ‘Developmental State’ formally introduced and then seriously conceptualised by scholars and practitioners (Leftwich, 2000: 157). Soon after that, Taiwan and South Korea were also scrutinised under the DS prism. Although sharing main commonalities as basic features of a DS, each account has a different point of view on the state-market relations. This is clearly illustrated under a number of views, such as ‘market conforming’ in Japan (Johnson, 1981; 1982); ‘guided market economies’ in Taiwan and South Korea (White and Wade, 1985); ‘market augmenting’ in South Korea (Amsden, 1989); or ‘governed market’ in Taiwan (Wade, 1990). This section will review those accounts to provide a detailed concept of this particular type of state.

Introduction of the concept

Chalmers Johnson (1981; 1982) proposed the term 'Developmental State' as a third category of state besides liberal and Stalinist conceptions.¹ This is 'a key breakthrough' in the Western literature on Northeast Asia (Cumings, 1999: 63). Johnson (1982) eschews many previous explanations of the success of Japan, such as, "the riddle" which attributes Japan's success to the type of Keynesian policies (p.6), or the research approaches that he calls 'anything-but-politics,' including such accounts as 'the "national character-basic values-consensus" analysis,' 'the "no-miracle-occurred" analysis,' 'the "unique-structural-features" analysis,' and 'the "free-ride" analysis' (p.7). Instead, he emphasises the role of the developmental state and its industrial policy in the Japanese miracle, and argues that Japan's DS was a central element in explaining the country's post-war 'economic miracle' (p.8).

According to Johnson (1982: 19), 'in states that were late to industrialise, the state itself led the industrialisation drive, that is, it took on *developmental* functions.' Taking the American economy as an opponent of the Japanese model, Johnson points out the distinctions between the two opposite types. The DS is a 'plan-rational system,' which is opposite to the US 'market-rational system.' In the latter the regulatory orientation toward private economic activities predominates, whereas, in the former the developmental orientation predominates. A market-rational, or regulatory, state focuses mainly on creating an environment for economic competition rather than on substantive matters such as the necessary existence of a certain industry. By contrast, the dominant feature of a plan-rational, or developmental, state is to undertake the task of identifying and achieving such substantive socio-economic objectives.

¹ Stalinist or neo-Stalinist model refers to the command economy or central planning economy used in the Soviet Union during Stalin's time and in other "communist" countries. This model of economy was an opponent of the liberal market economic model in capitalist countries.

However, Johnson (1982: 18-9) also stresses that the plan-rational system differs from the command economy which is characterised by him as a 'plan-ideological' system.

In addition, the DS always gives greatest priority to 'industrial policy,' that means, it pays special attention to the identification and promotion of the most rational structure of its domestic industry - the structure that allows the country to enhance its international competitiveness (Johnson, 1982: 19). Although industrial policy is crucial in the DS, it cannot replace the market, as all state actions intervening in the economy must be 'market-conforming' (pp.317-9). Industrial policy, instead, is 'what the state does when it intentionally alters incentives within markets in order to influence the behaviours of civilian producers, consumers, and investors' (Johnson, 1999: 48).

As far as the relationship between the state and the civilian enterprises is concerned, Johnson (1982) stresses its reciprocal and equally cooperative nature by pointing to a mutually beneficial relationship between the state and the business to achieve both developmental goals and enterprise viability. When the DS works well, neither of the two sides prevails over the other. At that time the state acts as a 'catalytic' agency in Lind's (1992) sense, meanwhile, managers of enterprises act according to the incentives and disincentives created by the state. However, Johnson (1982) also notes that it is not easy to create such a combination, but when an economy reaches this status, it can produce dramatic economic development.

Explaining Taiwan and South Korea

Soon after the case of Japan was scrutinised by Johnson (1982), Taiwan and South Korea were also described as developmental states by Robert Wade and his colleagues. Wade (1988) counters the existing accounts that overstated the magnitude of market expansion, while

ignored the actual contribution of the state and the impacts of its promotional policies. He argues against the neoclassical view that attributed the cause of Taiwan's and South Korea's high growth trajectories to their liberalising reforms which include liberalising investment and shifting from import control to export promotion. Although the reforms of 1958-1962 were important to Taiwan's subsequent success, they are far from the whole story. In Wade's opinion it is Taiwan's 'initial conditions' that were more favourable for subsequent success than the neoclassical account recognised, and therefore, they play a greater role in the explanation of the success. Thus, he concludes that the 'non-liberal' aspects have had a more positive effect on Taiwan's success than the neoclassical account allows (Wade in White and Wade, 1985: 28).

The role of the state in both Taiwan and South Korea was clearly explained by White's and Wade's (1985) research report. They regard the economies of Taiwan and South Korea as 'guided market economies,' when finding that, rather than just using normal direct regulation or production, these states actively influenced the market by altering the profitable incentives, and hence could mobilise private economic actors to implement their targeted projects (White and Wade, 1985: 3). They acknowledged the significance of the market forces as they decide and control the supply of and demand for almost everything in the market. However, they argued that while most Western economies constrain market rationality by measures to protect groups vulnerable to the consequence of that rationality (Ruggie, 1982), Taiwan and South Korea use the priorities of industrialisation to constrain market rationality. This is because Taiwan and South Korea actually consider industrialisation as their main goal, instead of maximising profitability from their current comparative advantages. Thus, the Taiwanese and South Korean states have gone beyond the market, besides maintaining the

‘self-regulating parts of the market’ they decided the specific locative effects by aggressively intervening in its important parts (White and Wade, 1985: 4).

A clear distinction between the states of Taiwan and South Korea and the states in the West was shown in White’s and Wade’s (1985) comparison. While the governments in the West mainly focused on macroeconomic variables or the provision of infrastructure, and only intervened at the industry level when it is in trouble, the states of Taiwan and South Korea, conversely, have been proactive in identifying the strategic industries and products which they perceived to be more important for their long-term development, and they have attempted to mobilise the scarce capital to develop them. As a consequence, the two governments have actively coordinated, subsidised and directed some strategic industries, while intermittently intervening in other less important ones, and seemingly ignoring the rest. However, White and Wade also stressed that these two governments had not attempted to prevent investment in non-strategic projects. They had simply not given such areas much, or any, help. They selected only key industries to support with the purpose of guaranteeing enough investment always available for the strategic projects (White and Wade, 1985: 5). This proactive and selective developmental nature is what the Taiwanese and South Korean states possess while Western states lack, and has become one important feature of the DS.

Commonalities among Japan, Taiwan and South Korea

Taiwan and South Korea follow a fundamental logic very similar to the approach of Japan (Johnson, 1987; Wade, 1990: 25, 326-34). The states of those countries all had a strategic vision of foreseeing and deciding matters important for the future, although those decisions might not be right for short-term development. They formulated the investment patterns based on the conception of a long-term national rationality, and guided the market to act according

to those directions. It is the governments that decided the content and pace of industrialisation, individual businessmen's aggregate decisions just responded to the governments' signals. As in Japan, the governments in Taiwan and South Korea have actively established the industries that they thought should exist. They used direct and selective measures to steer the changes in industrial composition over time according to what they foresaw in their strategic plans (White and Wade, 1985: 5).

Moreover, in both Taiwan and South Korea the ruling groups have had a clear and urgent ideology of industrialisation, and have seen industrialisation issues in a comprehensive rather than a piecemeal perspective, in a militaristic rather than a bargaining or 'muddling through' mode.¹ This characteristic of Taiwan and South Korea is precisely the same as that of Japan, where the state has always given its first priority to economic development for over 50 years (Johnson, 1982: 305). And, therefore, this shared characteristic is also generalisable for a DS, because the nature of a state is defined by its first priority (p.305).

Different views on state-market relations

Despite various commonalities, the authors writing on these first three successful East Asian economies have different opinions on the state-market relations. If Johnson (1982: 317) offered an account of 'market conforming methods of state intervention' for Japan, where all the major duties of the elite state bureaucracy must conform to the market, Amsden (1989), on the other hand, provided a 'market-augmenting paradigm' to depict the development process in South Korea and the nature of state-business relations. While in a more generalisable account, Wade (1990) developed his 'governed market theory' which was mainly based on the development process of Taiwan, but then verified by being compared with the cases of

¹ The times this status started were from 1949 onwards for Taiwan and from the arrival of Park Chung Hee in 1961 for South Korea.

South Korea and Japan. However, the differences in the methods of leadership between those three political economic systems might just illustrate that in pursuing international competitiveness different states might have different ways of governing the market (Wade, 1990: 309). But in general these states always played proactive roles in leading or governing the market.

Market-augmenting paradigm

Although agreeing with Johnson's view on the leading role of the state by pointing out that the South Korean government, rather than the market, made almost all pivotal decisions in allocating resources and guiding private entrepreneurship (Amsden, 1989: 139), Amsden has a different view on the state-market and state-business relations. In her 'market-augmenting paradigm' she argues that the state distorted relative prices when it used subsidy to promote economic growth (p.150). Thus, the Korean government did not conform to the market, this happened even during its first liberalisation period (p.147). Additionally, the market environment in which South Korean firms operated was not competitive, but tightly controlled by the Korean state. The Korean firms were also especially guarded against foreign competition. Therefore, in place of getting relative prices right, the South Korean government has 'deliberately gotten them wrong' (p.139). Likewise, the state-business relationship in South Korea cannot be simplistically depicted as 'close cooperation.' The nature of state-firm relation was indeed 'reciprocal,' because, in obtaining subsidies from the government, firms had to commit and undertake responsibility to fulfil certain performance requirements, sanctions would be imposed upon firms if they failed to fulfil their tasks (pp.15-6). On the whole, by using subsidies, the state, rather than the market, decided all major matters of the economy: 'what, when, and how much to produce' (p.148).

Generalising a successful mechanism for late industrialising countries, Amsden (1989: 146) argues that late industrialisers often have reciprocal state-firm relations which are regarded as ‘the premise of late industrialisation,’ and will act as ‘an automatic disciplinary device’ for the market-augmenting paradigm. The degree of the reciprocity characterising state-firm relations in a late industrialising country will decide the speed of economic growth of that country (p.146). As the relationship between the state and the firm is not cooperative but disciplinary, state subsidies were not dispensed as giveaways. According to Amsden (1989: 147), this is a key difference between successful late developers as Japan, South Korea and Taiwan and other unsuccessful cases as India and Turkey, where the governments failed to discipline business.

Governed market theory

Going beyond Johnson’s (1982: 317) model of ‘market-conforming methods’ of Japan and Amsden’s (1989: 150) ‘market-augmenting paradigm,’ Wade (1990: 28) proposes the ‘governed market theory’ and distinguishes between ‘leading the market’ and ‘following the market.’ He describes the central economic mechanism of the DS as a combination in which the state uses its power to govern and steer the market forces. Using its power the state selectively aimed at increasing the ‘investible surplus’ of areas of productive capacity, so that it can channel a large percentage of capital into these economic areas. By creating incentives and providing protection, the state steered investments into strategic industries that are important for the country’s long-term and sustainable development. Yet, not merely protecting the new industries, with a concern for the maturity of the economy, the state gradually reduced protection to allow more domestic as well as international competition. By doing so it could increase the competitiveness of its firms (Wade, 1990: 342). Thus, the state

in Wade's opinion does not just respond to or merely follow the market. Instead, it is always one step ahead of the market, actively leading market forces to act following its desire and intention.

As the state in his account was proactive, Wade countered the free market portrait of the Taiwanese success. He argued that the main cause of the rapid growth of Taiwan's manufactured exports was neither the liberalisation of market nor the neutrality of incentives. In contrast, the Taiwanese state has acted as 'the contrapuntal partner to the market system,' and it guided market forces and channelled a large portion of resources into strategic areas (Wade, 1990: 110). This is evidenced either in the use of public enterprises as an instrument for 'a big push' in many important industries, or in the state's active and aggressive guidance of private enterprises in other sectors from the early years (p.110). It is important to emphasise that in all cases the Taiwanese state always pioneered the developmental initiatives, foresaw strategic products or technologies, and manipulated public resources or public influence to support these initiatives (pp.110-2, 303). Thus, the course of economic development in Taiwan was a top-down process 'in line with government preferences,' wherein state always led the private market agents (pp.112, 303).

After it was built based on the Taiwanese experience, Wade's governed market theory was then tested in the cases of South Korea and Japan. Although each case showed its own nuances, those three countries shared decisive features that make up their successes. Firstly, those states all satisfied the five sets of factors constituting 'hard states' which can even actively 'shape the economy and society' (Wade, 1990: 337; Migdal, 1988: chapter 8).¹ The successes of these countries were due to the fact that their states always paid sufficient

¹ According to Wade (1990: 337-342) or Migdal (1988: chapter 8) the factors making hard (strong) states include massive social dislocation; serious military threat from outside or inside; international support for the state's concentration of social control; the risk of competing groups with sufficient conditions to form another state leaders; and skilful leaders favouring strong state control.

attention to each industry, and, more importantly, these states were all “hard enough” to both produce ‘sizable effects on the economy’ and control the direction of the created effects (Wade, 1990, 343). Secondly, rather than just ‘picking the winners,’ these states tended to ‘make’ them, created ‘national champions’ in strategic areas (p.334). And finally, by establishing policy networks so that state officials could access important information about particular industries, these states could overcome the pitfall of the lack of expertise of state officials who are in charge of leading a new industry (p.336). These similarities in the decisive factors leading to the successes of these three countries are not a coincidence, as Japan was always Taiwan’s and South Korea’s “textbook,” meanwhile, these two countries kept watching each other closely, and copied their policies in ‘meticulous detail’ (pp.326-34).

On the whole, it is apparent that the development experience of Japan has served as a good example for both Taiwan and South Korea to follow and achieve their successes (Wade, 1990). Because of this, many “late late developers” have also followed their suit and also achieved significant economic outcomes. As a consequence, the DS theory has continued to be tested and extended by scholars who attempted to explain those emerging cases. Meanwhile, a number of scholars continued to look into the cases of the first three countries to provide more profound insights into the DS theory. Those trends will be seen in the next section to synthesise the overview of the DS variants.

1.3. A Shift in Focus

Following the spectacular transformation of the three Northeast Asian economies,¹ some countries in Southeast Asia also achieved significant economic outcomes. This has attracted much attention from scholars and practitioners investigating those cases from the DS perspective. While some new emerging economies such as Singapore, Thailand, Malaysia, Indonesia, Hong Kong, and most recently, China, have drawn much attention from writers attempting to explain their phenomena, the cases of those first Northeast Asian countries continued to attract scholars' attention to expanding the explanations of the nature of the region's political and socioeconomic systems. These very attempts have helped to enrich further and develop more broadly the DS theory.

Anatomising the DS concept

After 1990, the DS continued to be investigated, but in a more detailed manner and from different angles. Admitting it as a new type of state which has decisively contributed to the successes of a large number of countries across from North to South of East Asia, many attempts have been made to explain it further. A variety of approaches have been employed by different authors to enrich the theory in diverse dimensions.

¹ In order of time, the high growth period occurred first in Japan (1962-1974), then Taiwan (1970s) and next South Korea (1980s).

New institutional approach

Applying the insights of the ‘new institutional economics,’¹ Chang (1994) developed his theories of state intervention and industrial policy, and analysed the South Korean industrial policies to isolate the logic of its development. He found that together with its ‘massive support’ the Korean state had also used ‘heavy control’ to develop most of its important industries in the period when they were given highest priority (p.113).² In harmony with accounts of Johnson, Amsden and Wade, the Korean state in Chang’s account played a central role in the country’s economic development. The Korean state was capable of creating an effective instrument for industrial development, because of both its ‘cunning use’ of incentives and its ready capacity for disciplining firms (p.123). This echoes Amsden’s point on the disciplinary state-business relations in South Korea. In addition, Chang stressed the historical, political and institutional conditions of the Korean state as the defining factors for the success of the state’s intervention. These conditions were the result of a demanding process that the Korean state has had to intensively deal with, in terms of not only political struggle, but also ideological campaigning as well as institutional innovation. This also implies that, such conditions, although very hard to obtain, are ‘not entirely God-sent gifts,’ therefore, other countries can hope to build and possess them or some of them (p.129).

Furthermore, he defines the developmental state in political, ideological, and institutional terms as:

a state which can create and regulate the economic and political relationships that can support sustained industrialisation, and which takes the goal of long-term growth and structural change seriously, ‘politically’ manages the economy to ease the conflicts inevitable during the process of such change (but

¹ The new institutional economics argues that ‘the market is not the only, or even predominant, way in which our economic life is organized... non-market institutions are integral parts of socio-economic life’ (Chang, 1994: 4).

² Chang often uses Korea to refer to South Korea, thus hereafter we will use them interchangeably.

with a firm eye on the long-term goals), and engages in institutional adaptation and innovation to achieve those goals (Chang, 1999: 192).

Clearly, the developmental state's principal functions herein go far beyond the state's functions in conventional sense of merely correcting market failures, as besides coordinating substantive changes, the DS also gets involved in providing vision for enterprises, building necessary institutions and managing inevitable conflicts during the course of its economic development (p.198). In addition, along the course of development the DS also has to continuously adjust and reform its institutions. It means that the state sector has to be able to flexibly and effectively cope with the changing requirements so as to remain internationally competitive, and to sustain long-term development by supporting education as well as research and development programs (Woo-Cumings, 1999: 27).

Another important generality of the DS is the emergence and existence of large economic groups in the economy. This is resulted from the politico-economic relationships which always support a corporatist framework (Woo-Cumings, 1999: 27). As a result, the DS is generalised as 'a paradise for big industrialists,' wherein large groups are the very force with which the state coordinates and negotiates its strategic projects and important investment decisions (p.17). In order to mobilise social resources, the state has to strongly commit to the national collective goals by promoting 'national ideologies and sentiment' together with firmly guaranteeing private property rights (p.27).

Chang's account of the DS in Korea also confirms the possible opportunities for other late developers with similar cultural, social and political histories to attempt to follow the DS example. Although there might be a relatively limited number of successful cases as Korea, this number, according to Chang (1999: 198-9), is still big enough to validate the belief in the feasibility and potential success of such developmental reforms. As a result, hope still remains

available for some countries striving to replicate the developmental experience of the successful East Asian states.

Embedded autonomy

In a more theoretical manner, Evans (1995) proposed the notion of ‘embedded autonomy’ to elaborate a healthy relationship between the state and the economy, which then becomes one of the most important features of the DS. Looking at a wide range of states, from very successful ones such as Japan, South Korea and Taiwan, which he called archetypal developmental states, to Zaire as a ‘predatory state,’ with Brazil and India in between as ‘intermediate states,’ using the comparative institutional approach, Evans (1995) attempted to answer a question about the health of the relationship between the state and the market that had never been answered in previous works. Johnson, Amsden, and Wade were mainly concerned with the question of how the DS interacts with business, and their answers were simply that the state supported businesses by cooperating, disciplining, or leading the way. Evans provides a more detailed conceptual framework with which to consider the determinants of a state’s developmental effectiveness.

To be a successful DS, the state must, first, have autonomy. An autonomous state is always comprised of two distinctive features. Firstly, its technocrats must possess ‘prowess and perspicacity.’ Secondly, the state itself must have an effective and durable institutional structure. It is noteworthy that the DS autonomy herein differs entirely from both the predatory state’s incoherent despotism and the “relative autonomy” of the structural Marxist state (Evans, 1995: 59). Moreover, it is also opposite to Weber’s emphasis of insulation from society as a necessary precondition for a functioning bureaucracy. Developmental autonomy, in this view, is ‘an autonomy embedded in a concrete set of social ties that bind the state to

society and provide institutionalised channels for the continual negotiation and renegotiation of goals and policies' (p.59). Developmental autonomy is regarded as one necessary condition for the appearance of an effective DS.

In addition to developmental autonomy, Evans (1995) develops the concept of "embeddedness" as another necessary criterion for such development. In his view embeddedness is defined as 'a concrete set of connections that link the state intimately and aggressively to particular social groups with whom the state shares a joint project of transformation' (p.59). Evans stresses the importance of embeddedness the same as that of autonomy as without one side the other can probably lead to perverse results. Therefore, embeddedness and autonomy are equally necessary for the emergence of a successful DS.

In terms of theoretical significance, Evans's (1995) work also enables analysts to categorise any state when he draws up a spectrum of states by stretching it from one extreme of the predatory state (as Zaire) to another extreme of the developmental archetypes (as Japan, South Korea and Taiwan), with intermediate cases in the middle, such as India and Brazil. As archetypal developmental states, Japan, Taiwan and South Korea possessed both fully required embeddedness and autonomy in an effective amalgam. While intermediate states as India or Brazil either lacked autonomy as Brazil whose state apparatus was not based on meritocratic recruitment and thus short of competence, or lacked embeddedness as in India's case, although its bureaucratic apparatus was qualitatively close to developmental ones (Evans, 1995: chapter 3). This deployment of state range becomes an important framework for researchers attempting to analyse and value how developmental a certain state is.

The spread of the developmental state

In reality, successful developmental states have helped to change the economic order of the world, allowing many less developing countries to catch up with other advanced nations in the West, or at least significantly raising their development degrees. The DS first appeared in Japan in the late 1950s, then, was soon copied by Japan's two close neighbours, Taiwan and South Korea, in around 1970s and 1980s, respectively (Johnson, 1982; Amsden, 1989; Wade, 1990). Not stopping there, the DS has proved its vitality and influence by continuing to migrate and being adopted by various nations across Asia, especially Southeast Asia. Obviously, the recent successes of economies in Southeast Asia and China following the example of Japan, Taiwan and South Korea have provided convincing evidence that the international economic order has evolved significantly thanks to this economic development model. Some of those have become most industrially developed countries like Japan, Taiwan, South Korea and Singapore, while others have considerably raised their living standards and narrowed the gaps with more advanced economies, making Asia currently the most dynamic region in the world (IMF, 2011).

Although this development propensity might still be explained in a number of ways, the role of the state is always emphasised. While authors favouring the approach of global production networks to regional developments often stress the importance of the strategic coupling and the role of global lead firms in deciding the success of a certain region (Yang, 2009; Kelly, 2009; Lee, 2009), they also have to admit the necessary role of the DS in deciding the success of regional development. Some even emphasise the local states' efforts as key factors to transformation (Yeung, 2009, Wei et al., 2009).

On the other hand, from the perspective of the latecomers, how to become articulated into the global value chains or global production networks is a very strategic issue (Mathews,

2006). Thus, in the flying-geese pattern, the “lead goose” is very important in forming the shape, but each goose itself is also important and even decisive in maintaining or changing its position in the shape.¹ This logic is also applied to a new “goose” attempting to join the pattern. It has to be first, willing, then, actively get itself ready before being able to fit into a pattern established by the “lead goose.” To successfully attract global lead firms, it is crucially important that the state create sufficient incentives. As will be seen in chapter 6, this is also what the Vietnamese state has done to attract foreign capital, notably global lead firms. Thus, it seems more convincing to attribute the recent economic successes of the above cases to endogenous factors, of which the DS always has primacy.

China: a spectacular DS follower

Although China used to adopt the central planning regime and its leading political party has currently remained ‘notionally’ communist, it has attracted extensive attention from developmental state advocates (Radice, 2008). This happened as early as the time when China was still almost universally seen as socialist (White, 1984). A short period following its 1978 reform, China continued being characterised as a ‘socialist DS’ by White and Wade (1988: 19) when they argue that though China accepted market economy, it still remained a socialist DS, as, unlike Taiwan and South Korea, China’s market guidance was implemented ‘within a social integument.’ Since then, although China has been termed differently by various authors due to its complexity and diversity, the amazing economic achievements and clear similarities to the characteristics of a DS archetype have made it be viewed as developmental by a good number of authors.²

¹ See more in Akamatsu, K. (1962) ‘A Historian Pattern of Economic Growth in Developing Countries’, *The Developing Economies*, 1: 3-25.

² The Chinese state was termed as a ‘local state corporatism’ by Jean Oi (1995); as an ‘entrepreneurial state’ by Blecher (1991) and as a ‘polymorphous state’ by (Howell, 2006: 288).

Spending a long time on studying China, Bagchi (2006) found that the reform in China was endogenously started under its own volition, with the reform's nature and pace being perceived and decided by the Chinese leaders, not by any outsiders. Led by the Chinese Communist Party, the Chinese state has successfully constructed and nurtured a developmental state which has helped China achieve an 'astonishing success in conquering foreign markets' in terms of both traditional manufactures and high-tech areas (Bagchi, 1987: chapter 4; 2006). In addition, the sustainability of the economic development in China has been vividly illustrated in its continuing high growth rates, despite the regional financial crisis of 1997-8 (Bagchi, 2000). Moreover, the little impact that the current global crisis since 2008 has had on China also suggests that 'China's DS has been remarkably successful in staving off the enormous challenges it faces' (Riskin, 2008: 22).

In harmony with these opinions, in an account comparing China and Japan, Beeson (2009) finds 'sufficient commonalities' that exist between the two countries. In his opinion, China is the most important embodiment of Japan's potential acolytes. In managing to accelerate its own remarkable transformation, China has striven to replicate a number of essential elements from the Japanese exemplar (p.7). Thus, China has adopted a developmental stance in its development process, although it might not have replicated exactly what are considered as the main features of a DS created by the archetype of Japan in its heyday. This is because of many differences between the two countries, especially the international contexts in which they interacted (Tsai and Cook, 2005: 50-4). More importantly, through China's developmental experience, Beeson (2009: 37) argues that developmentalism should generally be understood as 'an overall orientation to public policy and the role of the state,' rather than narrowly or rigidly understood as 'a specific set of policy prescriptions or bureaucratic agencies.' This echoes Kohli's (2004) generalisation that the

influential role of the East Asian states in directing the course of economic development is one of their most striking features.

Developmentalism in Southeast Asia

The DS, though originally from Northeast Asia, has not been confined only to this region (Leftwich, 2000: 168). Despite different degrees of success or adjustment, variations have appeared in several parts of the world, especially where the historical conditions became favourable (we will discuss these conditions in chapter 2). The close distance and similarities in customs, cultures, social norms and political traditions might explain why the DS has often appeared in many countries in Southeast Asia. This suggests that the DS model has a wider appeal and relevance even outside its “birthplace,” when the preconditions for it to emerge are available.

Besides Singapore, a newly industrialised country (NIC) which has gained substantial economic growth and technological upgrading since its foundation in 1965 (Krause, 1988; Findlay and Wellisz, 1993; Doner et al., 2005), some other countries in Southeast Asia such as Malaysia, Indonesia and Thailand have also gained significant economic development and transformation in the post-war era (Leftwich, 1995; 2000; Haggard, 2004). Although this latter group of countries have not achieved much national upgrading (Doner et al., 2005), their economic growth and industrial diversification have indeed been impressive (Haggard, 2004).

It is noteworthy that their significant achievements have all largely been generated by ‘the single most important factor’ that they share, that is, the developmental state (Leftwich, 1995: 400). While the Singaporean government has been widely accepted as a developmental state (Krause, 1988; Findlay and Wellisz, 1993; Huff, 1995; Doner et al., 2005), the other states in the region have also been described as developmental by a good number of authors.

In Malaysia, for example, the political leadership has played a crucial role in the process of sustained administrative reforms (Trezzini, 2001). Its former Prime Minister, Abdul Razak, was among the most dynamic development politicians in Asia (Esman, 1972), who was a driving force of the Malaysian civil service modernisation that aimed at improving Malaysia's ability to cope with globalisation's challenges, increasing its international competitiveness, and, thus, enabling the Malaysian state to better support the private sector (Abdullah, 1995). Thailand and Indonesia, too, shared the same sort of developmental value, when they were characterised by the notion of 'bureaucratic polity' by Riggs (1966) and Jackson (1978), respectively. Thus, together with Singapore, those countries have made Southeast Asia a real admirer of the DS theory. And as we shall see, Vietnam is also not an exception to this trend, when the Vietnamese state has attempted to replicate important features of the DS since the reform of 1986.

In short, the substantial contribution of the DS model to the evolving of the international economic order has been clearly shown in the realities of the world economy. The contribution has been particularly clear in the cases of China and other DS followers in Southeast Asia. Although the virtue of this economic development model has not been confined only to East Asia, as intermittently we have also seen some forms and degrees of this kind of state elsewhere in the world, such as Botswana and Mauritius in Africa (see Leftwich, 1995; 2000; 2008) or Ireland in Europe and Israel in Southwest Asia (described as flexible developmental states by O'Riain (2000)), East Asia has been the main region that has largely adopted this model, and is where the DS has most frequently emerged. The popular adoption of this economic model in "late late industrialisers" has consequently inspired scholarly circles to the further investigation of the DS in both depth and width. However, as we have seen, this economic model also has been largely challenged by the process of globalisation.

Whether it can still survive and be effective in an era of globalisation? The following section will seek the answer to this question.

1.4. The Persistence of Developmental States

In the introduction of the thesis we saw the nature of the globalisation process and its challenges to states in general and developmental states in particular. However, it is still contested whether nation-state autonomy and sovereignty have been undermined by globalisation and neo-liberalism. For instance, the neo-liberal account of international convergence is countered by Weiss's (2000) argument that in adaptation processes of states domestic political and institutional factors have been far more important than external factors. Likewise, Howell (2006) maintained that in contrast to being dismantled, developmental states have transformed rapidly from 'catching up' to 'continuous upgrading.' In some parts of the world, especially Southeast Asia, developmental states have kept emerging to help their national economies to industrialise in 'catch-up' eras and improve living standards of their people.

More particularly, the global economic crisis of 2008 has caused significant changes to the world economy, of which the most prominent phenomenon is the return and rise of 'state capitalism' (Bremmer, 2009).¹ Typical for this economic model is the concentration of power in the state, and there are close ties between state governors and large-scale enterprise managers. In coping with the current ongoing recession, the majority of states, even such liberal advocates as the United States and Western European countries, have had to rely on

¹ In the world history, this economic model first took shape during the oil crisis of 1973 and has emerged again three times more since then, in the 1980s with the 'rise of developing countries controlled by governments with state-centric,' then around 2005 with the rise of 'sovereign wealth funds,' and this time since the global crisis of 2008 (see more in Bremmer, 2009).

their ‘heavy intervention’ in the economies, this suggests that free-market capitalism has been significantly doubted (Bremmer, 2009). In addition, this has also significantly affected the power, image and legitimacy of the US government to continue acting as an influential global economic rule-maker, which would probably allow more state interventionism to take place in every country as a consequence.

However, as we will see hereunder, even before the current global crisis, many countries had already intervened substantially in their economic development.

New interventional techniques

Although clearly affected by globalisation, East Asia still remains the subject of voluminous works that directly address the DS. Arguing for the continuing evolution and persistence of the DS in post-crisis Korea, Cherry (2007) emphasised the role of President Kim’s government which continued to produce elements of the DS. For instance, when it created the Financial Services Commission, a powerful agency comparable to the Korean Economic Planning Board, it has actually reproduced the DS’s pilot agency. Likewise, such factors as the ‘state control of finances’ to underpin the reform, the state’s ‘restructuring initiatives,’ and the re-control of the chaebols were the real embodiment of the exercise of ‘autocrat power’ and power recentralisation in the Korean state (p.79). Regardless of the IMF’s pressure, in Korea still there was ‘a disguised form of industrial policy’ carried out by an ‘inflexible and authoritarian’ state (p.79). Thus, the Korean state has regained much power from the weakened and (temporarily) defenceless chaebols even in the “IMF era” (pp.77-9).

In harmony with Cherry, Hundt (2009) detected that, rather than giving up its developmental orientation and ambition, the Korean state continued to show its strong will and capacity for developmental functions (see also Chu, 2009; S. Kim, 2009). He viewed the

Korean state as the greatest success of the DS model (Hundt, n.d.).¹ More specifically, the Korean case shows that the Korean state continued being able to design and introduce new policy tools, and switch its interventionist measures from a ‘heavy-handed’ form used at the beginning of the industrialisation process to a “fine-tuning” form when the economy became more sophisticated (Hundt, 2009). This also echoes Kim’s (2008) and Chu’s (2009) views on the continuity of the South Korean DS.

Like South Korea, the case of Taiwan has also shown the persistence of developmentalism. Dent (2003) found that, instead of being passive to globalisation, the protagonists of Taiwan’s Foreign Economic Policy have actively coped with neo-liberal ideas.² Thus, the Taiwanese state has indeed actively supported its firms, so that they could utilise any possible opportunities generated by processes associated with globalisation, rather than let them passively exposed to challenges of globalisation. By doing so, the Taiwanese government has apparently been able to transform challenges from globalisation into opportunities. This also suggests that, in difficulties capable states could still find their feasible and beneficial solutions.

Broadly speaking, Dent’s (2003) account on the Taiwanese developmental state’s evolution suggests a greater demand for state intervention in the globalisation context, especially smart and tactful intervention. It vividly demonstrates a path of evolution for states and their managerial capacity, the way in which they reform and adjust their interventionist means, rather than give up their developmental functions, so as to strengthen their influence even in the era of globalisation. Dent (2003) also argues for a greater need for the state and

¹ Available at:

<http://www.pol.mq.edu.au/apsa/papers/Refereed%20papers/Hundt%20Reappraising%20the%20Developmental%20State.pdf>. Accessed: 1 April, 2010.

² The Foreign Economic Policy’s (FEP) development in technical aspects presents a very useful example of where economic liberalisation has been implemented in a strong state institutional context. See more in: (Dent, 2003).

state capacity to get involved in governing economic matters during the process of economic liberalisation, because with more state capacity and a better institutionalised market order, liberalisation will be implemented more effectively.

Apart from the above mentioned successfully adaptive cases, states in the developing world, where most efforts have been given to economic development and living standard improvement (Beeson, 2006), have attempted to find their own ways to cope with the global challenges. That some successful active states have still emerged in some parts of the world suggests that the new emergence of developmental states in catching-up, developing economies is still possible. As a result, it is premature to declare that the activist state is on its demise (Hundt, 2009).

New life cycles

Apparently, the processes associated with globalisation do not support state intervention in leading the development of national economies. In reality, they have threatened to undermine the state capacity and influence the course of economic development. The state has, consequently, attempted to adapt itself to the rules of the games. In addition, in countries where the state capacity for generating economic growth is crucial to the ruling elites' legitimacy and authority, if states are forced into retreat by external factors then there seems to be a more fundamental challenge to state activism from internal forces. However, as we will see, in the context of globalisation, the developmental states in different countries might change their functions, but state activism is still possible, especially when state intervention remains necessary in developing countries.

The developmental state after 'catch-up'

The question about the DS life-span and its reconfiguring necessity so as it does not become self-serving and counter-productive is raised by Beeson (2006). As even once successful DS as the Japanese state always faced a real danger of being captured by vested interests, and became an obstacle to further necessary reforms. In addition, when reaching the frontiers of technology and knowledge, state planners are not always better than enterprise managers in anticipating future development of technology (Beeson, 2003a). As a result, after fulfilling 'catch-up' tasks, the developmental states either transform themselves into 'upgrading' phases, or otherwise, may become obstacles to further reforms (Beeson, 2006). This echoes many researchers' work on the current natures of the developmental states in Taiwan and South Korea, such as Cherry's (2007), Hundt's (2009), Dent's (2003) Minns's (2001), and is particularly germane to an earlier conclusion generalised by Leftwich (2000: 167-8) stating that instead of being static, the developmental state is 'a transitional form of the modern state.'¹

Greater demand for developmentalism in the developing world

Although states in already 'caught-up' economies may no longer be developmental, new emergences of developmental states are still possible and very necessary for the development and transformation of developing countries (Beeson, 2006). This implies that a DS may end its life in one country, but another new one may start its life somewhere to help a catching-up economy grow rapidly. As a result, the demand for more state capacity and intervention, or for a DS, is always high in catching-up economies.

¹ Minns argues that it was the Korean development success that created and consolidated class interests, but it was also this success that subsequently undermined the Korean state's autonomy and effectiveness; for more of this argument, see (Minns, 2001).

Although state-led development might likely lead to authoritarianism, corruption, environment degradation and human right violation (Johnson, 1987; Leftwich, 2000), it is arguable that states continue to be critically important to economic development (Beeson, 2006). This is especially true in the developing world, where first priority is being given to increasing living standards. Consequently, in the developing world, to catch up with the developed world, it is still necessary to reproduce the same sorts of ‘coordinated, interventionist, state-led strategies’ underpinning the rise of Northeast Asia during its post-war era (Beeson, 2006: 450). This is in harmony with Leftwich’s (2005; 2008) stress on the importance of an effective or developmental state in addressing economic growth and poverty reduction in developing countries. After having fulfilled their most important goal of economic development, the developmental states would switch their attention to correcting their reverse faces or side effects of the rapid growth.

Intervention possibility

Arguably, there have still been many opportunities for states to act effectively and authoritatively even in an era of globalisation. Firstly, states have retained much ‘room for manoeuvre’ in policy making as evidenced in the cases of Taiwan, South Korea and China. Secondly, it is evidenced in that many emerging economies have been able to prolong their high-growth periods under increasing pressure of liberalisation. Thirdly, globalisation has also presented opportunities in a number of aspects, especially its contribution to expanding states’ governing capacities by both transforming public-private relations and developing policy networks (Weiss, 2003a; Beeson, 2006).¹ Thus, by fully utilising their distinctive advantages and the possible opportunities created by processes connected to globalisation, capable states

¹ This is the point taken from: Weiss, L. (2003c) ‘Introduction: Bringing domestic institutions back in’, in L. Weiss (2003) (ed.) *States in the Global Economy: Bringing Domestic Institutions Back In*, Cambridge: Cambridge University Press: 19, which is addressed again in (Beeson, 2006).

have even been facilitated by globalisation to promote economic development (Weiss, 2003a; Radice, 2008). However, to successfully cope with globalisation's challenges, realising and taking its opportunities the states must have enough capacity. As a result, it is clear for capable states that 'globalisation has done little to undermine either the capacity or the necessity for states to shape economic outcomes' (Beeson, 2006: 449).

More importantly, the obvious outcomes that the three successful East Asian developmental states created, and the significant contributions to development and poverty reduction that other 'late late developers' in Southeast Asia have achieved have made donor community and international institutions rethink the role of the state (Menocal, 2004; World Bank, 1997). Their thinking has evolved from 'structural adjustment programmes designed to reduce the size and reach of the state'¹ to 'a growing awareness' among scholars and practitioners of the importance of the state's developmental orientation and effectiveness in explaining the successes or failures of countries in achieving development goals (Fritz and Menocal, 2007: 540-1; Rodrik, 2007). Another lively example is the donors' intention in the Paris Declaration to minimise the negative effects that aid has tended to have on developing states by rolling back some lending and granting conditions (Fritz and Menocal, 2007). Thus, a more tolerant agenda, 'good enough governance,' instead of the normative agenda of 'good governance,' has been used as a bridge between the donors' good governance agenda and the developing countries' developmental state agenda (Grindle, 1996; Fritz and Menocal, 2007: 538). Therefore, with more donors' tolerance towards states in developing countries and their appreciation of more effective states, the states will hope to have more room of manoeuvre to implement their development strategies.

¹ This is the core idea of the Washington Consensus (Williamson, 1990) with key recommendations as eliminating government controls, promoting trade liberalisation and fostering a greater role for the private sector in the economy.

It is noteworthy that, the state capacity for dealing with donors is also crucially important in both maintaining good state-donor relationships and achieving the state's intended targets. As will be seen in chapter 4, Vietnam has received such a substantial amount of aid from international donors that it has been termed one of their 'darlings' (Menocal and Mulley, 2006). However, the Vietnamese state has still been able to 'manage and exert considerable leadership in its relationships with donors' (Menocal and Mulley, 2006; Fritz and Menocal, 2007: 542). This is partly because the donor community has tended to appreciate the developmental values of the state that it works with (Fritz and Menocal, 2007). But more importantly, as argued by Gainsborough (2010), in reality neo-liberalism becomes much 'less powerful' in developing countries far from the West, as both sides actually need each other and want the donor-aided projects to move fast. As a result, such states as Vietnam could still have significant freedom of manoeuvre and be able to use skilful techniques in dealing with international donors.

Conclusion

In terms of the state's developmental functions, the scholarly history saw a number of rudimentary ideas emerge centuries ago, many of which are still relevant, especially for the developing world. Since the Japanese economic "miracle" and the most appropriate explanation for it – the DS theory, many other countries of the developing world have followed the Japanese example to transform their economies. Some have been very successful, creating variants of the DS archetype as Taiwan, South Korea (Evans, 1995: 51-60) and Singapore (Krause, 1988), while some just achieved lesser degrees of success

(Haggard, 2004; Doner et al., 2005). This has led to both deeper and broader investigations into this area of literature by the scholar and practitioner circles.

If strictly valuing those less successful cases under deep investigations, their states were not as developmental as the ideal type, because of the lack of some features due to many differences, both internal and external, between them (Tsai and Cook, 2005; Oi, 1995; Blecher, 1991; Howell, 2006). However, if considering the most general and central feature of the DS - the decisive role and contribution of the state in leading the course of economic development - those states were definitely developmental (Leftwich, 1995, 2000; Bagchi, 1987; 2000; 2004; 2006; Haggard, 2004; Riskin, 2008; Beeson, 2009). Although they might lack a number of features compared to the archetypal DS, they have still played influential roles in the transformation and development processes of their economies (Kohli, 2004), and ‘the single most important factor’ contributing to the substantial successes of these economies has been the presence of a DS in each of these states (Leftwich, 1995: 400; 2000). Overall, therefore, developmental states should be essentially understood as ‘states whose successful economic and social development performance illustrates how their political purposes and institutional structures (especially their bureaucracies) have been developmentally-driven, while their developmental objectives have been politically-driven’ (Leftwich, 2008: 12).

On the whole, like a thread linking through the history of the discipline in terms of ideas related to the developmental functions of the state in the socio-economic system, the DS theory could be considered as the crystallisation of those ideas with nationalism and national vision at its heart (Woo-Cummings, 1999b: 8-10, Leftwich, 2000: 167). Since its ‘formal debut,’ it has become not only a starting point for explaining economic development processes in other emerging countries, but also the prescription of development for late industrialisers, notably countries with many contextual similarities in East Asia, to consult

and adopt. It has also shown its vitality and influence through its ongoing continuity and development over time and space, despite many challenges from the globalisation process. The primacy and pre-eminence of the DS, especially for catching-up nations, have been vindicated by its increasing demand and necessity for late industrialising countries around the world.

So what are the conditions for this special type of state to emerge and what comprises the DS to give it such important value? The next chapter will analyse in details the pre-conditions for the emergence of a DS, and its constituent components, so as to help us understand more comprehensively about this type of state.

Chapter 2: The Developmental State Model and Analytical Tools

It is apparent that at any time of history, in the same international conditions some countries make better economic progress than others. After the Second World War, at least seven countries in East Asia enjoyed the same conditions as America's capitalist allies, but only four of them became successful developmental states with spectacular economic development and transformation (Stubbs, 2005).¹ And in the current international context, when the globalisation process has been spreading widely, some countries (such as China and Vietnam) still outperform others. These differences in economic performance cannot simply be explained by looking at the individual endowments of natural resources of their starting positions, as these successful economies transformed from either the rubbles of the war (as Japan) or desperately low starting points (as South Korea, China and Vietnam). Thus, in this sense, in the balance of the relation between structure and agency, the latter is arguably the defining factor, in other words, the role of the local state decides the success.

In addition, as pointed out in chapter 1, the DS originated from Northeast Asia and has since spread to (and been adopted in) many other countries, especially in Pacific Asia, to help them substantially develop and transform their economies.² So why have the developmental states often, and also largely only, emerged in countries of East Asia, or more generally of Pacific Asia? As we shall see, this is in large part because the majority of countries of this region share many similarities in terms of cultural, social and political traditions and histories

¹ Those countries are Japan, South Korea, Taiwan, Singapore, Indonesia, Malaysia and the Philippines. Among them, the first four countries gained substantial development and transformed into developed economies, while the others failed in advancing and upgrading their development, though they also achieved significant growth (Stubbs, 2005).

² Pacific Asia is a term used to refer to Asian countries bordering the Pacific Ocean, including Japan, (North, South) Korea, China, Taiwan, Hong Kong, and the ASEAN countries (see Preston, 2000). Although Papua New Guinea is also included in this region according to this definition, we would prefer to exclude it from the term Pacific Asia being used in this thesis.

which have provided a number of pre-conditions essential to the emergence of this type of state. Because without such preconditions, a DS is unlikely to occur (as it has rarely occurred in other parts of the world), the conjunction of them consequently becomes the necessary criterion for the emergence of a DS.

However, even though a country has already satisfied this necessary criterion for a DS to emerge, we still cannot conclude whether the state emerging in this country is a DS or not. As a consequence, in order to assess whether a state is developmental, we still need to find out the sufficient criterion for a state to be a DS. Thus, another question to be asked here is what makes a state more capable than another, and what makes the successful DS so effective? The answer lies in the very nature of the DS which is defined by its constituent elements and their features and characteristics. And, as we will see, the possession of a set of distinctive elements and features is the sufficient criterion for a state to become a DS.

The aim of this chapter is to build a theoretical and analytical framework and methodology for assessing a new state from the DS perspective. In doing so, we will focus firstly on analysing the essential pre-conditions for a DS to emerge, based on which we will build the necessity for a DS to emerge. In addition, we will analyse the distinctive properties of the developmental states that have made them capable of developing and transforming their economies effectively and successfully. We will argue that the possession of a full set of these elements and features is the sufficiency for a state to be developmental. Our theoretical and analytical framework will largely be grounded on the necessary criterion for a DS to emerge and the sufficient criterion for a state to be developmental.

The structure of this chapter has five sections. The first section analyses the distinctive (Sino-centric) natures of the majority of countries in Pacific Asian region, regarding its cultural, social and political traditions and histories, in order to uncover the pre-conditions

necessary for the emergence of a DS. The second and third sections are devoted to the discussion of the DS's elements and features. While the second section focuses on a primary set of elements synthesised by Johnson (1982) mainly through Japan's experience, the third section provides a more thorough synthesis developed by a number of authors based on various cases with different degrees of success, of which the most important work is the generalisation of a DS model developed by Leftwich (1995; 2000). By summarising the most prominent features and characteristics of the developmental states and the DS variants which have appeared since the end of the Second World War, the fourth section arrives at an ideal-typical 'ten-part model' of the developmental state. This full set of components of the ideal-typical DS forms the sufficient criterion for a state to be developmental. This criterion, together with the necessity for the emergence of a DS, composes our analytical framework for analysing and assessing a new political economic system, especially the case of Vietnam. Besides discussing the methodology used in the thesis, the last section highlights some important notes on investigating the case of Vietnam, based on its distinctive conditions of a communist country where the press is still largely under government control.

2.1. Sino-centric Legacies and the Preconditions for the DS

That the majority of successful developmental states have emerged in (North and South) East Asian region (including China recently) can be best explained by the distinctive conditions of this area that are conducive to the formation and development of this special type of state. Historically, Pacific Asia was a 'Sino-centric' region (Preston, 2000: 13), with Confucianism

as the dominant social ideology.¹ This ideology has influenced the social and political systems of a number of societies in the region for a long time, with many cultural, social and political norms and traditions having been created and widely applied (Rozman, 1991). One of the most important features of Confucianism is the creation of a society with a tight hierarchical order. For hundreds, if not thousands of years, a broadly feudal system had particular Confucian qualities in much of Northeast Asia, with an order of respect for first the king, second the teacher, and third the father. Thus, loyalty to the king (more broadly, to the dynasty or the state) and patriotism have become common virtues for all of the citizens of such societies (Lo, 1999). Consequently, the stress on the obligations of the ruled to the ruler, or of the citizens to the state or the country as a whole, has remained a widespread cultural tradition of many societies in the region.

The 'Sino-centric' cultural history of Pacific Asia has thus created distinctive features in many societies of this region (Kang, 2010). A powerful focus on family and kin is the basic social structure of the regional social system. This creates a focus on the family group and social community for many societies of the region (Preston, 2000: 205). Thus, the main difference between the society of Pacific Asia and that of the West is that the former is familial and communitarian, while the latter is individualistic. This Sino-centric feature of Pacific Asian societies has arguably made it easier for their people and groups of people to cooperate with each other in certain circumstances. More importantly, it is the traditions of respect for family, for elders and for people in authority generally that has led the peoples of this region historically exercise little 'open debate within the public sphere,' thus they lack the kind of 'democratic political life' which is common in the West (Preston, 2000: 206). As a result, their political activism is less prominent (Jones, 1998), allowing the regional states to

¹ Three main ideological systems influencing societies of China, and thus those of Pacific Asia, were Confucianism, Taoism and Buddhism, but Confucianism with its logical system of norms for social behaviours and ethics has been most impactful in creating the societies of hierarchical and disciplined orders in this region.

have much autonomy and room of manoeuvre. Based on the argument that the distinctive character of local societies of Pacific Asia is one of the main causes of the political-economic success of many countries of this region (Preston, 2000: 205), it is possible to say that it is the hierarchical and ordered societies of the majority of Pacific Asian countries that has created the favourable pre-conditions for the type of the DS to emerge and operate.

Analysing the experience of the majority of successful developmental states, Leftwich (2008) finds four 'contingent historical factors' which can be considered as necessary conditions for the emergence of this special type of state. However, given the very favourable international context for the capitalist countries in North and South East Asia during the Cold War - when those countries received substantial technical and financial support from the US (even including the tolerance for its allies' authoritarian and interventionist mode of development) - many have regarded this factor as another condition necessary for the emergence of the DS (Stubbs, 2005). Yet the recent emergence of China as another successful DS in the context of increasing globalisation (Bagchi, 2000; 2004; 2006; Riskin, 2008; Beeson, 2009) suggests that the DS form may emerge in other circumstances, too. Indeed, the case of Vietnam studied in this thesis suggests that the international context is not a decisive factor for the emergence of a DS, although it affects the degree of success. Overall, therefore, we can say that given the following conditions it is quite possible that a DS will emerge.

The first condition that facilitates the emergence and formation of a developmental state is the presence of intense threats, from both inside and outside the country. Under intense pressures, especially from external strategic threats, the political elites of a country are inevitably urged to cooperate with each other, allowing them to develop concerted policy and encouraging a nationalistic ideology. The experiences of successful developmental states in East Asia all reflected this kind of threat before and during the time in which their

developmental states emerged (Leftwich, 2008: 12). This is in harmony with the point made by Doner et al. (2005: 4) that regards 'severe security threats' as one of the three constraints (besides 'broad coalitional commitments' and 'scarce resource endowments') whose simultaneous interplay is central to the political origins of the developmental states.

The second condition is the presence of 'the coherence of a coalition of internal elites' (Leftwich, 2008: 12-3). Given the imperative conditions of a country under severe threats, if the political elites can create or form a coherent coalition, then it is likely that they can form a strong state which can minimise internal conflicts and cope with the tangible threats. This kind of coalitional coherence is either based on a dominant player (such as the military as the case of South Korea after the 1960 military coup, or single party rule as in China) or on 'broad coalitions' which can create a compromise of interest between competing elites and quickly neutralise or co-opt any possible radical opposition (Leftwich, 2008; Doner, et al., 2005). As the DS is designed to mobilise national resources (for national industrialisation and development) (Johnson, 1982), if it fails in this task it is necessarily fails to become a DS.

The third condition necessary for the emergence of a DS is the 'concentration of power and continuity of policy' under the control of the state, at least at the initial stage of state formation (Leftwich, 2008: 13). This power concentration and policy continuity has generally either been achieved by the control or support of military (as in the case of South Korea, Taiwan and Thailand) or by the continual holding of power by one single or a dominant political party in the country (as in the cases of Singapore, Malaysia and China). To maintain power concentration and policy continuity, the developmental states that emerged in successful East Asian countries have all shown their firm commitment, either ideologically or pragmatically, to growth and equity, even where these goals were set and pursued only for the sake of political stability (Leftwich, 2008).

The last condition is the existence of, or the capacity of the state to construct, a system of ‘developmentally driven institutions’ (Leftwich, 2008), because ‘[e]ven the smartest policies cannot implement themselves’ (Doner et al., 2005: 18). Those states that want to implement their policies effectively must have qualified institutions to undertake such tasks. The case of developmental states requires more than this, as when the first three conditions mentioned above are available in a country, either for the survival of the regime or for the protection and promotion of national interest, it necessary for the state of this country to ‘impose, or negotiate, an agreed set of developmentally driven rules governing economy and polity’ (Leftwich, 2008: 13). Only with these kinds of institutions, could the state continue to lead its economy to substantial success, and become a DS.

The historical record suggests that these conditions are not independent. Instead, they are deeply interrelated with each other. Only the first condition is subject to external factors, and is in any case necessary for the others. The other three conditions are largely dependent on the nature of the domestic resources in terms of cultural, social and political spheres of the country. As the lack of one of them will prevent the DS from emerging, the conjuncture of these four preconditions becomes the necessary criterion for the emergence of a DS.

It is clear that the Sino-centric values of many societies in Pacific Asia analysed at the beginning of this section are very conducive to the above-mentioned preconditions for a DS to emerge. The possession of societies with familial, communitarian and patriotic traditions has allowed many countries of Pacific Asia to create coherent coalitions for the sake of ‘national interest,’ especially, when the countries were facing severe threats. Likewise, in these hierarchical, disciplined and ordered societies, with the absence of the citizens’ ‘democratic political life’ and the long existent norm of loyalty towards the rule and the state, it is easier for many states in the region to maintain and centralise power. Additionally, given the availability of the first three conditions, it is possible and politically advantageous for the

political elites in power to design and construct developmentally-driven institutions, in order to successfully implement their development policies. As only by doing so could they cope with the threats, satisfy their coalitions and maintain their legitimacy.

Obviously, if these four necessary conditions contingently converge in a country, it is quite possible that a DS will emerge in that country.¹ However, such conditions are hard to obtain, as besides external factors, these conditions are largely defined by the nature of a country's domestic historical and traditional resources. And as analysed earlier, it is the Sino-centric cultural, social and political values and traditions of many countries in Pacific Asia that have facilitated and, arguably, may continue to allow the developmental state to occur. But even when the conjuncture of these preconditions is available, to become a developmental state, the state in context has to build, and to be built, so as it can possess the distinctive components and features which help it developmentally, strategically and effectively lead the course of economic development and transformation of the country. What are the distinctive components and characteristics of this special type of state? The following sections will elaborate this matter.

2.2. A 'Sketchy' Model of the Developmental State

Initially, Johnson had not intended to generalise the Japanese experience in his 1982 book as a model, however, he never doubted that Japan was a better developmental model than Anglo-American capitalism for both the second and third worlds (Johnson, 1999: 39-43). Thus, despite initial hesitation, his generalisation based on Japan's experience then became 'a tour

¹ This has been evidenced in some sporadic cases appearing outside Pacific Asia, such as Finland after 1918, Botswana or Mauritius recently (see Leftwich, 2008: 11-7). But these phenomena are not typical for Europe or Africa as they are for the case of Pacific Asia.

de force, an exemplary model in its own right' (Allinson, 1983: 242-3). Johnson's model consists of four elements focusing mainly on the elite bureaucracy, its autonomous scope, the pilot agency and the market-conforming principle - the general rule for all state actions. These features form a basic model for the DS.

Competent state bureaucracy

The developmental degree of a state lies in the nature of its bureaucracy, not just its presence. The bureaucracy in the DS must be 'small, inexpensive, but elite' (Johnson, 1982: 315). It is constituted by the best managerial talents available in the system. To achieve this type of bureaucracy it is necessary that the state select its staff based on meritocratic recruitment. This is the commonality that Evans (1995: chapter 3) finds among the three most successful developmental states in East Asia, and that is what other intermediate states lack. Traditionally, those successful states are able to select the most talented members from the most famous universities for their apparatus, through meritocratic civil service examinations which are toughest and hardest to pass (p.51). Together with long-term career paths within the bureaucracy, this makes civil servants the most prestigious career in the society. Moreover, experience of those countries shows that the promotion mechanism is also crucially important and the best is internal promotion (p.52). Thus, to form a DS apparatus, the state must be able to attract the "best and brightest" people through processes of meritocratic recruitment and internal promotion.

Because of the nature of the task it performs, this bureaucracy needs to consist of rational personnel components. The best composition is a majority of public policy generalists mastering law and economics, and a number of engineers and technicians. The nature of their tasks also makes them best termed as 'managers' rather than professionals, civil servants or

experts. To help them work most efficiently, those managers should be frequently rotated throughout the economic service, and they should retire early if not having chances of promotion to higher positions (Johnson, 1982: 315).

The bureaucracy has to perform three fundamental duties based on market-conforming principle. The first is to carry out the industrial structure policy by identifying and choosing the necessary industries. Second is the implementation of the industry rationalisation policy through identifying and choosing the best means to rapidly develop the chosen industries. These two tasks are actually the design and implementation of the ‘industrial policy’ in general. The third duty is the supervision over the competition in selected strategic sectors to make sure that they develop well and efficiently (Johnson, 1982: 314-5). These three basic tasks of the bureaucracy entirely cover the industrialisation process of the country, from identifying the rational industrial structure, to deciding the strategic industries and the best measure to develop them, and to the supervision of their development process.

Sufficient autonomous scope for the bureaucracy

In his study on the economic bureaucracy of Japan, Johnson (1982: 154) tresses the implicit political division of labour between the tasks of ruling and reigning as ‘the most striking’ structural characteristic of the capitalist DS. This is illustrated under the summary as ‘the politicians reign and the bureaucrats rule’ (p.316). It means that to fully utilise the ability and competence of the bureaucracy, it is necessary that the bureaucracy have sufficient scope of autonomy, so that the bureaucrats can take initiative and operate effectively. What the bureaucracy fear most is political interference. However, as in each ministry in Japan the prime minister appointed only the minister, leaving other positions for internal promotion, the bureaucrats could establish ‘their claim to be above politics and to speak only for the national

interest' (p.52). Thus, the bureaucracy in Japan generally enjoys significant degree of autonomy and faces rather limited political influence.

In addition, to allow and formalise the autonomous scope of the bureaucracy, the state legislature and judiciary should just have "safety valve" functions, and readily act to control the bureaucracy whenever necessary (Johnson, 1982: 315). This is illustrated in the fact that the legal system of Japan was very general and short and did not cover many economic areas. The Japanese officials, therefore, enjoyed a great scope of autonomy to take initiatives by providing their 'administrative guidance' and self-interpretation of laws (p.273). Consequently, they were even seen as 'largely above the law' (p.38). But to help the bureaucracy well fulfil its tasks, the two state branches also had to protect the DS's priorities from being abused by other social interest groups (p.315).

However, it is also worth stressing that the bureaucracy will never be able to rule well, unless the reigning politicians perform their positive tasks successfully, creating enough space for bureaucratic initiatives free from political power. The political leaders will appear immediately to exercise their 'safety valve' functions to force the bureaucracy to alter priorities 'just enough to calm the protesters,' whenever a case of protest or demonstration occurs (pp.315-7). By "just enough to calm the protesters" Johnson also implies the statecraft of the DS in response to the protesters. On the one hand, it reconciled with the protesters to calm them down, while on the other hand, it still tried to maintain as much as possible the directions and priorities it was pursuing.

It seems that in the development history of the world economy, except for Japan, few other countries have possessed such type of clear labour division between the politicians and bureaucrats. Probably, because Japan's 'planning and control mechanisms have evolved through a sequence of conjunctures and state interventions,' which allowed its economic

bureaucrats to enjoy an ‘unthinkable’ scope and initiative (Goldfrank, 1983: 722). However, as will be seen in the next section, the sufficient scope of autonomy should be better understood as in Leftwich’s (1995; 2000) view as that of the whole state in relation to its society.

Market-conforming principle

Even though Johnson (1982) stresses the importance of the state as the decisive factor in the high growth period of Japan, he neither views the state as the only factor, nor contrasts industrial policy to market forces (Johnson, 1999: 34, 48). Conversely, he also stresses the importance of the market mechanisms as the third element of the DS model. Though the state plays proactive roles in foreseeing, designing and implementing its industrial policy, all of its interventional actions must ‘conform to the market’ (Johnson, 1982: 317-9).

In intervening in the economy the Japanese state had a series of actions, ranging from direct monetary motivations to indirect supportive measures. It created governmental financial institutions with great monetary influence, and extensively used special revision of tax incentives to directly influence economic entities. The government also sponsored and conducted research and development activities, or used licensing and approval authority to indirectly manage and control many sectors of the economy. All interventional actions share one common essential feature of being designed and implemented based on market mechanisms to avoid ‘the deadening hand of the state control’ (Johnson, 1982: 318).

By referring to ‘the perfection of market-conforming methods of state intervention’ Johnson (1982: 318) emphasises the equilibrium of the state-business relationship in the economy. This status was achieved only when both the state and the business need each other and neither of them dominates the other. This is the status that is difficult to reach, as even

Japan could achieve it only during its high-growth era (1962-74). But it was the type that can generate spectacular development outcomes, and is termed by Johnson (1982: 196) as the ‘genuine public-private cooperation.’

The role of pilot agencies

It is generalised that East Asian countries have succeeded in using the model of ‘few agencies’ to develop and transform their economies (Wade, 1990: 371). More often there has been only one most important agency, which has always been the most powerful and influential in the course of industrialisation. Japan’s MITI is one example of this agency which is named as ‘the pilot agency’ and constitutes the fourth element of the DS model (Johnson, 1982: 319). Additionally, the establishment of it ‘at the heart of all Japanese economic policy-making and administration’ was vital to Japan’s success (p.196). The importance of the pilot agency has been vindicated by its key contribution to the successes of Japan and the NICs. Additionally, its absence in the DS followers was also thought to generate ‘the severe economic and environment dislocations’ and the ‘high level of structural corruption’ in those countries (Johnson, 1999: 40).

Besides being small in size, to be effective a pilot agency has to possess several key characteristics. For instance, it should control some financial sources to actively carry out its plans (Johnson, 1982: 79). This is to free it from direct control of government funds, and thus from subservience to other governmental organs, notably the Finance Ministry (p.320). In addition, a pilot agency must have think-tank functions, as it is always proactive in identifying and designing industrial policy. More importantly, it does not only do the planning, but also necessarily gets involved in the implementation of industrial policy at the micro level via its vertically-organised bureaus (p.320). This feature is very important as it ensures the

consistence of the process of industrial policy from design to fulfilment. Last but not least, to promote the talent of all of its members, a pilot agency must allow the atmosphere of internal democracy (pp.80, 320). In reality, although other agencies do possess some of those features, the concentration of all of them in one single agency makes it outstanding and most effective compared to all others, and allows it to undertake the “piloting” function for the whole economy.

In terms of functions, through the MITI’s experience, a successful pilot agency needs to possess a combination of functions which at least covers such areas as ‘planning, energy, domestic production, international trade, and a share of finance, particularly capital supply and tax policy’ (Johnson, 1982: 320). However, its functions should also be adjusted according to the situations over time (p.320). This is because the key functions of a pilot agency should not be too broad (which will make it too powerful) or too narrow (which will make it ineffective). Therefore, to find an efficient and rationale mix for the pilot agency remains a critical and challenging question for any state, which depends on not only the country’s own situations, but the contemporary international contexts as well.

Concluding remarks on the four-element model

The four elements of the DS summarised by Johnson (1982: 320) forms a model, but just what he calls a ‘sketchy one,’ as there are still many complex social and political matters, both normative and philosophical, surrounding this structure. The post-war dramatic-growth period of Japan occurred only when it developed all necessary conditions for its take-off. That status was attained through a long period of internal preparation, struggle, adaptation and accumulation, and then boomed under favourable external conditions, especially significant support from the US (Stubbs, 2005). Additionally, one more key reason for Japan’s success

was its enduring wartime degree of mobilisation even in peacetime. Thus, another country can hope to follow Japan's example, but only if its state is 'similarly committed to the mobilisation of industry,' and it must consider carefully all other conditions when adopting the Japan's model (Johnson, 1999: 41).

In reality, the possibility of replicating Japan's example came true about 10 years later for Taiwan, and 20 years or so for South Korea. These two countries had tried to learn from Japan's experience, adopted Japan's model, and eventually resulted in another two economic "miracles" in East Asia. Their similarities, especially in the key factors deciding their successes, are clearly illustrated in Johnson's (1987) comparison. This is because along Taiwan's and South Korea's development processes, Japan was always their "textbook," and the MITI was the model to build their pilot agencies largely responsible for promoting new industries and advancing technologies (Wade, 1990: 326). Though the state-market relations in these three countries are addressed differently by Johnson, Amsden and Wade, as "market conforming" in Japan, "market augmenting" in South Korea, and "governed market" in Taiwan, respectively, these three "market-relating mechanisms" are similar in the main sense that the state comprehends the market mechanisms, controls them and uses them skilfully to manage and steer industrial investment and development. To capture the significance of these nuanced features of state-market relations characterised in these different exemplary developmental states, in this thesis we propose the term "the capacity for mastering the market" of the DS. This term means that the DS must be the master of the market, besides thoroughly understanding and skilfully applying its mechanisms, the DS also deliberately and systematically distorts prices (as described above as 'gotten them wrong' by Amsden) by creating investible incentives, in order to steer and mobilise private capital for its developmental purposes.

Finally, as the three countries show ‘the same array of governed market elements’ when tested under Wade’s (1990: 326) governed market theory, their slight differences just suggest that there are different ways for a state to govern the market to increase its economy’s international competitiveness (p.309). Therefore, the developmental states emerging in other countries may have new nuances that have not been mentioned in Johnson’s sketchy model. It is, therefore, necessary to look at this matter now.

2.3. A More Detailed Model

Breaking down in more details the distinctive components of the DS by drawing on the comparative literature to analyse the most successful cases in Northeast, Southeast Asia and Africa, Leftwich (1995, 2000) synthesises six major components as the essential elements of a more detailed model of the DS. These six major components are either more detailed versions of the four elements proposed by Johnson (1982), or their further developments in depth and width, and can be considered as the most typical features of a DS. Leftwich’s detailed model of the DS provides a very useful basis for accessing a state from the DS perspective.

Developmentally-determined leadership

This feature was not stressed in Johnson’s (1982) model, but it may be the most important component in Leftwich’s view. Because Leftwich (1995; 2000: 160-1) finds in all countries where the developmental states occurred, their most successful periods have generally been led by ‘determined developmental elites.’ Though emphasising more on the bureaucracy’s role as ruling the economy, Johnson (1982: 316) also implicitly underlines the role of the reigning politicians in creating positive environment for bureaucrats to perform successfully.

If looking at Japan's system from the angle of mobilisation, this ability of the politicians cannot be played down. Apparently the status that for more than 50 years Japan always gave its first priority to economic development (p.305) could not be created by anyone in the bureaucracy. Instead, it must have been mobilised by state top leaders. Thus, either implicitly or explicitly mentioned, the developmental elites are one key component of the DS. And the developmental elites themselves have to possess some special features.

Firstly, founding leaders have often been the essential element in the elite. Evidence has been such influential figures as Park Chung Hee in Korea, Lee Kuan Yew in Singapore, or Seretse Khama in Botswana (Leftwich, 1995; 2000). These leaders have been considered as those who changed the histories of these countries. In addition, surrounding the leadership was usually a small 'core policy circle' (Leftwich, 2000: 160). This point supplements Johnson's view on elite bureaucracy, but with an emphasis on the importance of a founding figure to a country's transformation.

Secondly, there were intimate relationships, cooperation and linkages existing among the components of the DS bureaucracy, particularly at the highest level. In other words, both civil and military components of the bureaucracy were densely linked with the political office at high levels (Leftwich, 1995; 2000: 160). This 'dense traffic' implies the embeddedness of the elite leaders in the state apparatus, which enabled the bureaucracy to have more influence in the policy-making process, but, on the other hand, also curtailed the political and legislative elites' power.

Thirdly, developmental elites often shift coalitions instead of being monolithic. This is because all kinds of societal, interest, ideational and institutional structures have been diversified and complicated due to changes in socio-economic conditions (Leftwich, 1995: 405). Therefore, conflicts within political and policymaking elites have also been intensified

over time. This feature echoes and develops Johnson's (1982) view of the two types of sometimes "lifeblood" struggle existing within Japan's state system. These types of conflict and struggle have somehow affected the development causes. However, it is these conflicts and struggles that have helped to purge and select the most capable and developmentally committed elites for the developmental states. More importantly, coalition shifting also helps to prevent the entrenchment of interest groups - one possible obstacle to further development.

As a result, this brings to the last feature of the developmental elites, that is, they have often been "relatively" incorrupt. This is also the primary requirement for the quality of elites if they wish to succeed. For this type of state always plays an intensive role in the economic life, its organs and the business are 'deeply embedded,' so state elites are often exposed to many 'temptations' and opportunities to get involved in corruption (Leftwich, 2000: 161). Thus, the morals of state elites are crucial in deciding whether they will help the country to take off or degenerate it into some kind of crony capitalism. This has also been illustrated in the two trends of state-led development in the world history. One has been those with lower degrees of corruption, they succeeded and developmental states occurred. The other has been many developing countries with coercive or corrosively patrimonial states that created pervasive corruption from the top to the bottom, and could neither have become developmental states nor transformed the economies successfully (Leftwich, 2000: 161). Thus, as a must in developmental states, political elites are 'relatively non-corrupt' and 'developmentally determined' (Leftwich, 1995: 406).

Sufficient state autonomy

Well operating and effective developmental states need to have relative autonomy for both the political elites and their junior state institutions. Autonomy here means that the state must be

able to insulate from the capture of such particular interests as class or regional ones, and have enough capacity for overriding them whenever they violate ‘the putative national interests’ (Leftwich, 1995: 406).¹ When implementing developmental strategies the state always gives the first priority to the associated outcome, thus, other peculiar interests might be violated. However, it is not necessary for the state to always depress such peculiar interests, it has to do so only when those interests are obstacles to collective targets. In reality, many peculiar interests have generally been able to benefit from the developmental strategies pursued by the developmental states (Leftwich, 1995). This point is in line with White’s and Wade’s (1985) view on selectivity stating that “not prioritising” differs from “prevention.”

Echoing Evans’s (1995) view on embedded autonomy, Leftwich (1995; 2000: 161-2) also notes that autonomy in this sense is not isolation from the society. It means that state and non-state actors are linked together in a ‘progressively dense web’ of both internally and externally ties whereby the state can coordinate the implementation of developmental objectives (Leftwich, 1995: 407; Johnson, 1982). Additionally, the conditions forming the internal bureaucratic cohesion are also a crucial precondition for the state to effectively participate in external networks (Evans, 1995: 50). These conditions include both formal and informal networks existing within the DS system (Evans, 1995: 49), we will discuss this issue further in the ‘embeddedness’ feature.

Competent economic bureaucracy

This component can be described as powerful, competent and insulated (Leftwich, 2000: 162), and is what Johnson (1982: 319) calls a ‘pilot agency’ or Wade (1990: 196) calls an ‘economic general staffs’ of the DS. It is a result of the above two first components. Because

¹ Leftwich takes this idea from Nordlinger’s (1987: 361) concept of autonomy.

developmentally determined elites in a relatively autonomous environment will, most likely, result in the shaping of ‘very powerful, professional, highly competent, insulated and career-based bureaucracies’ capable of leading the overall socio-economic development plan (Leftwich, 1995; 2000: 162-3). The fact is that pilot agencies existed in all developmental states throughout Northeast, Southeast Asia and even Africa.¹ But their power varied from case to case. The difference among the pilot agencies, and between them and the planning institutions in developing countries lies in the very ‘real power, authority, technical competence and insulation in shaping development policy’ (Leftwich, 1995: 409). This might clarify Johnson’s (1982: 320) view on the controversial matter of defining the scope of the pilot agency.

Focusing on the pilot agencies of various successful cases, Leftwich (1995; 2000) notices that due to either or both of processes of liberalisation and democratisation the power of such agencies has tended to decline, while their tasks have become increasingly complex and difficult. However, in the periods of these countries’ heydays these agencies were always the most influential in making development policy. This, together with the fact that some developmental states have recently attempted to reproduce such pilot institutions (such as the post-crisis South Korea (Cherry, 2007)), reaffirms the pivotal role of the pilot agency in the development process of a country.

Capacity to organise civil society

Civil society here is understood as ‘the web of all privately-organised interests and groups’ belonging to the social layer between the state and the family (Leftwich, 1995: 412;

¹ The countries that Leftwich mentioned in his article as developmental states all had dramatic economic development. But, in the strict senses of the concept of the DS, some of them are not up to the mark. However, in a broader view of the DS, as in Beeson’s (2006) view, they can be all considered as developmental states, at least in orientation or ambition.

Rueschemeyer et al., 1992: 6). Such groups as the associations of professionals, managers, enterprises, and the unions of students, workers, farmers, youth, women, etc. compose the core of civil society. Leftwich (2000: 163-4) finds in all developmental states weak and flattened civil societies under the control of the state. One reason is that a developmental state often emerged in a country from the time when its civil society groups or the classes generating them were still negligible. Another reason is the DS is usually a 'strong' or 'hard' state which is consequently able either to suppress or penetrate the civil society forces by a combination of measures, such as 'internal security legislation and agencies, secret police and party organisations' (Leftwich, 1995: 412). Thus, a weak and subordinated civil society can be seen as either a condition for the emergence (as shown in the first section), or a consequence of the way of controlling the society of the DS.

However, when economic conditions and living standards in those countries have been improved, social forces and requirements have also developed, making it more difficult for the states to control and contain them. Leftwich (1995; 2000: 164) views this as an obstacle to the maintaining of a DS, when arguing that it is the successes of the developmental states that challenge their future. This point harmonises with Minns's (2001) account on the key factors - the very successes of the DS - that undermine the South Korean DS.

Truly, all developmental states are being challenged by rising requirements of their civil society forces. However, as we have seen in the previous parts about the transformation and adaptation of the Taiwanese and Korean states in coping with globalisation and liberalisation, it is possible that capable developmental states are still able to find their ways to cope with arising difficulties. The DS may still be able to consolidate and remain at least one step ahead of its civil society by anticipating possible social changes. Therefore, it might be possible to suggest that in all developmental states civil societies have been relatively weaker than their

states. In other words, the developmental states have always been more powerful than their civil societies.

Capacity to manage private interests

Management of private interests is an apparently important task of any state, if its aim is not to be captured by any peculiar groups. Therefore, in a DS, where national strategic interests are always given highest priorities, to achieve developmental outcome the state must possess the capacity to manage private economic interests effectively, otherwise they will wither the national interests. It means that the state has to be able to effectively control both foreign and national private capital.

As one common feature of the DS is its weak and subordinated civil society, especially in its initial phases, thus at the inception of the DS, private interests were often weak and negligible. However, as the economy grows, those interests also develop, diversify and become complicated. This process is especially accelerated in a DS as of its high growth rate. And private interests, once being formed, always tend to entrench themselves. Thus, the key point here is that the DS must be able to consolidate its power and autonomy before the private capital becomes more significant (Leftwich, 1995; 2000: 164-5). However, as it is the short-term winners that most strongly prevent any economic reforms which are likely to damage their previous gains (Hellman, 1998), the need for state capacity to effectively manage private interests is not only high at the initial time, but also remains so alongside the country's development process.

This feature has been present in all successfully developmental states in Asia and Africa, where the state was always 'the most powerful player' in the economy (Leftwich, 1995: 413). However, managing those interests does not mean hindering them, instead, the

developmental states have always facilitated their emergence and growth, simultaneously actively steered, influenced and controlled their shape, scope and operating areas (p.414). Therefore, the DS capacity needs to be enhanced in managing both internal and external private economic interests, so as to be able to actively determine the role of both foreign and national private capital in the development process. Like the state-society relation, to manage private interests successfully, developmental states need to be at least one step ahead of private sectors, thus able to set the rules for the game and ‘bend capital to their developmental purposes’ (Leftwich, 2000: 164; Mardon, 1990; Pempel, 1999: 175).

To enable it to manage private interests successfully, it is of vital importance that the DS take control of all major financial resources of the country. This task is very important, as finance is considered ‘the nerves of the state’ (Woo-Cumings, 1999: 10), and is even more important for the DS, where the state is to direct the development of the economy. To discharge its strategic and leading roles, the DS must have financial tools to either invest directly in areas where private players are absent, or create incentives to channel private capital into the targeted destinations. In reality, the experience of the successful developmental states in East Asia all shows that these states always control the finance system, so as to be capable of mobilising capital and channel it into strategic areas. Johnson (1987), for instance, attributes the most important aspect of the DS to the centralised control of finance by the state. Similarly, Zysman (1983) finds that Japan used the credit-based financial structure as effective financing channels for its industrial policy. Likewise, Chang (1994: 125) pointed out that the nationalisation of all banks in Korea was the first move of Park when taking control of the financial flows in the economy. Thus, in studying the financial system of a new state, the experiences of successful developmental states become important.

Good performance and legitimacy despite poor human rights

Developmental states are often strong, even authoritarian, states which, besides being able to 'resist private demands,' can also 'actively shape the economy and society' according to their intentions (Wade, 1990: 337-42). At the same time civil societies in developmental states are often weak and subordinated (Leftwich, 1995; 2000). Logically, a strong state in a weak civil society will inevitably result in a poor human right record. Nonetheless, the world human rights ratings in 1987 showed that the developmental states' human rights records were not worse than those of many other countries. In reality, they have been better than those of many countries in Africa, Middle East and even Eastern Europe (Leftwich, 1995: 415-6; 2000: 165-6). This fact highlights the potentially benevolent role of the DS, which distinguishes it from the kind of despotic states highlighted by Evans (1995: 59). However, Leftwich also notes that by western liberal or socialist standards the developmental states have still had poor human rights records.

It seems paradoxical that despite their records of repression and limited human rights, the developmental states have still gained popular support for their regimes and significant legitimacy (Leftwich, 1995). Although they do have faced internal, even persistent or violent, opposition, in most of the developmental states their 'fundamental constitutional or political legitimacy' has rarely been threatened seriously, especially in their high-growth periods (Leftwich, 2000: 165-7).

Why could this paradox have happened, persisted and been accepted by the citizens? Possibly, the best explanation is because of the successful outcomes of economic development and transformation and the rational ways of distributing these outcomes. For instance, Japan's experience shows the willingness of its people in accepting the trade-off between bureaucrats' sometimes 'excessive power' and the efficient economic administration

(Johnson, 1982: 273). In addition, as developmental states normally arise from developing, catching-up countries, where citizens always want to firstly increase their living standards (Beeson, 2006), while the DS has been the best type of state in satisfying this sort of need. Equally important, parallel with spectacular development the developmental states have been able to distribute the benefits of rapid growth satisfactorily. As a result, an increasing proportion of the population has benefited from the achievements, making more and more people support the developmental regimes (Leftwich, 1995; 2000).

In sum, the six components synthesised in Leftwich's model generally show the major commonalities of the developmental states that have emerged since Japan's post-war successful experience. Though seemingly separated, they are interdependent, interconnected and have dialectical relations with each other. One element could be the result of another or others at a time, but would become the cause at another during the development process. Those components are generally the core of the DS.

2.4. The Ideal-typical Model of the Developmental State

The sketchy four-element model developed by Johnson (1982) and the more detailed six-part model built by Leftwich (1995, 2000) have highlighted the majority of the most important elements of a DS. As there are some overlapping points in these two models, we need to pick some separate elements from the former and merge with the latter, so as to have a fuller set of DS features. Firstly, for example, besides Leftwich's economic bureaucracy - the element the same as the pilot agency in Johnson's, it is also necessary to pay attention to the bureaucracy in general - the first element in Johnson's model (competent state bureaucracy). This element

is important, as such factors as the original sources of bureaucrats and the ways they get recruited, appointed and promoted altogether decide the quality and nature of the state apparatus. Additionally, not only important for the DS, in most developing countries the positive contribution to economic growth of state bureaucracies based on ‘meritocratic recruitment and predictable, rewarding career ladders’ has been vividly shown by Evans and Rauch (1999) in their cross-national analysis of this matter. Secondly, we need to focus more on the relationship between the state and the market, although it is possibly implicitly assumed that the market mechanisms have naturally been used in all of the developmental states (Johnson, 1982; 1987). However, in studying a specific state, especially the case of Vietnam, the adoption of market mechanisms and the nature of state-market relations are particularly important. Therefore, characterising state-market relations is indispensable. Thus, we will add the third ‘revised’ element of Johnson’s model (the capacity for mastering the market) to our synthesised model.

In addition, it is also useful to survey other contributions to the literature to see how the model has been refined. Although Leftwich has already stressed the type of embedded autonomy in the developmental states, in analysing the case of Vietnam, we still need to understand more about the nature of the embeddedness notion developed by Evans (1995), especially the existence of formal and informal networks within the system and the nature of state-business relations. Finally, given the very low starting points and very late starting time of the reform in Vietnam, the resources for the Vietnamese state to use have been very limited, especially compared to other countries. Thus, to be successful, Vietnam particularly needs to be very selective in its development. For this reason, the selectivity feature of the DS also needs considering. Thus, besides adding Johnson’s first and third elements, hereunder we

will analyse these two additional features of the DS before constructing an ideal-typical DS model for our studying purpose.

Possession of embeddedness

One more important commonality among developmental states is the presence of ‘embedded autonomy’ within each state system (Evans, 1995; Leftwich, 1995; 2000).¹ Many cases of successful economic development and transformation, but short of embeddedness are not categorised as developmental states, instead, fall in other types of state as intermediate as India or Brazil in Evans’s (1995). The presence of embedded autonomy means the coexistence of autonomy and embeddedness within the state system. This is because, although embeddedness is ‘the key to the DS’s effectiveness,’ it cannot work effectively without autonomy and vice versa (Evans, 1995: 50, 59).

Additionally, although both autonomy and embeddedness are essentially important, the emergence of a DS requires not only their presence, but also a balanced amalgam of these two factors. This balance is rather abstract, but East Asian successful cases provide good examples of this mix, though they are displayed in ‘a range of variation’ because of their ‘historical embodiments’ (Evans, 1995: 47-60). The combination of those two factors in an unbalanced mix will just produce an intermediate state, as the case of Brazil or India (pp.69, 72). Thus, obtaining an optimal balance of embeddedness and autonomy is a challenging task, as ‘effective state bureaucracies are vulnerable institutions, much easier to undermine than to sustain’ (p.71).

Besides emphasising the ‘institutionalised channels’ for the dialectical relations between the state and the business, Evans (1995: 49, 59) also stresses the ‘informal network’ as

¹ See chapter 1 of this thesis for a brief analysis of “embedded autonomy.”

important supplementary factor to the formal organisational structure. Despite a variety of ways of forming informal networks, through best universities' alumni as in Japan and South Korea, or the alumni of the National Resources Commission as in Taiwan, they have mainly contributed to the internal coherence and corporate identity of the bureaucracy. The internal coherence, in turn, is an essential precondition for the state to effectively embed in the whole political economic system (p.50). Thus, informal networks existing within the bureaucracy are ultimately essential to the state's embeddedness, and indeed represent the cultural differences between countries. As the nature and consequences of these networks are decided by the very mechanism of processes of recruitment, selection and promotion of the bureaucracy, the nature and quality of the bureaucracy in general will define its coherence and embeddedness.

One of the most important aspects to consider when studying embeddedness is the state-business relationship, including the nature of the large scale business enterprises and their relationship with the state. As the DS is 'a paradise for big industrialists' (Woo-Cumings, 1999: 17), it is necessary to look at those relations thoroughly to uncover the nature of their relations. As, superficially, embeddedness is rather similar to capturedness, while insulation and separation are difficult to identify, it is, therefore, important to pay special attention to the formation of these relations. Accounts of Japan, South Korea and China provide examples of different types of relation, such as corporatist in Japan, disciplinary in South Korea, or entrepreneurial in some parts of China. The natures of the state-business relations will tell us much about the nature of the state itself.

Selectivity

Resource constraints are common to every country, which prevents them from prioritising all development areas evenly at the same time. This is especially true for developing countries,

where those constraints are more apparent. Thus, to be successful, a country pursuing industrialisation has to know well how to select an appropriate set of strategic industries and develop them with special priorities at a certain period of time in its development trajectory. The order of importance will decide the order of priority that the state gives to each industry. The strategic industries are perceived and considered as the “spine” of the economy and the “locomotive” of all other sectors in the future. This ‘selectivity’ feature is another generality of the DS (Evans, 1995: 58), which is indispensable to its success. Intermediate states, like India and Brazil, lacked state intervention selectiveness, consequently, imposed too heavy burden on the bureaucracy, leading to the failure of fulfilling the strategic industrial frame essential to their long-term development, despite their great efforts to industrialise (p.69).

The selectivity feature of the DS means that the state foresees and identifies the rational structure of industries for its future economy and the order of importance of industries at different time in the development process. While it mobilises the majority of the national resources to develop the most strategic industries, it pays little attention to less important ones and seems to ignore the rest (White and Wade, 1985: 5). However, it is important to stress that, not prioritising does not mean prevention. Whereas, the DS just lets non-strategic areas grow spontaneously under spillover impacts of the promoted strategic areas. By selectivity, the state always makes sure that its strategic industries are given most priority and adequate resources.

An important indicator of the selectivity feature of the DS is the consideration and formation of industrial policy which is considered the ‘third side of the economic triangle’ (Johnson, 1984: 5). It entails the state formulating and implementing policies aiming at improving its economic structure during its development. The different roles that the state plays in different sectors (as analysed shortly) in order to implement its industrial policy are

also the reflection of its selectivity feature. Industrial policy is a key theme throughout all studies of the DS, and this marks an important distinction between a DS and a regulatory state.

Industrial policy should be seen under either the broad view by Johnson (1982: 26) as ‘a complex of those policies concerning protection of domestic industries, development of strategic industries, and adjustment of economic structure in response to or in anticipation of internal and external changes...’¹ Or it is understood under a narrower definition, the so-called ‘selective industrial policy,’ as defined by Chang (1994: 60) as ‘a policy aimed at *particular industries* (and firms as their components) to achieve the outcomes that are *perceived by the state* to be *efficient for the economy as a whole*.’²

Industrial policy comprises two basic components concerning the micro and macro aspects of the economy. In the micro sphere, industrial policy is called ‘industrial rationalisation policy,’ and has four areas of rationalisation regarding enterprises; the business environment; entire industries; and the industrial structure according to ‘international competitive standards’ (Johnson, 1982: 27). Thus, with micro-sphere industrial policy, the state intervenes at enterprise level to help them to improve their operations (p.27). On the other hand, macro-sphere industrial policy is called ‘industrial structure policy’ and this pays special attention to the structure of the whole economy, that is, the proportions of such important industries as agriculture; mining; manufacturing; and services, besides concerning the specific structure of each industry (p.28). Industrial policies at both scales have been especially important for industrial transformation the developmental states.

¹ This definition was taken by Johnson from Ozaki (1970: 879). Another definition of industrial policy is given by Johnson (1999: 48) that has already been cited in chapter 1.

² The italics are original.

In addition to the use of industrial policy, the selective and relevant use of state roles in different sectors also reflects the selectivity feature of the DS, and actually decides the outcomes of the industrial policy implementation process. Evans (1995, chapter 4) divides a state's roles into four categories, namely, custodian, demiurge, midwifery and husbandry. The state plays the custodial role when it regulates the economy to ward private capital off undesirable and inappropriate activities, meaning the state does not encourage investors to take new risks (p.78). The demiurge role, mostly embodied in the form of state-owned enterprises (SOEs), is played when the state involves in production of goods other than just infrastructures (p.79). The third role, midwifery, is actually a substitute for the second, as the state tries to encourage existing enterprises to enter, or new private entities to be created in new sectors, instead of setting up SOEs (p.80). The last role, husbandry, is played in supporting and prodding firms, after they have entered or have been created in a new sector, in order to encourage them to develop further (p.80). Although the four roles have different functions and impacts, the state has often used a combination of them in regulating the economy.

Experience of the developmental states suggests that the DS undertakes different roles in different sectors, and the choice of roles largely depends on the sector's technological and organisational characteristics (Evans, 1995: 93). For example, the DS is likely to use the demiurge role in sectors of high entry barriers but with technological availability, such as extractive industries as mineral mining or basic industries as steel (pp.83, 93). By contrast, it uses the role of midwifery or husbandry in lower entry barrier sectors, such as textile and garment or labour-intensive industries more generally (pp.83, 93). While in high-technology sectors as automobile or informatics, where technology is tightly controlled by some transnational corporations (TNCs), the optimal role for the DS is midwifery, focusing on

bargaining and constructing alliances with those TNCs (pp.84, 93). Additional to midwifery, some aspects of the custodial role are also needed to provide a “greenhouse” for the new entrants of the high-technology industries. However, Evans (1995: 83-4) also points out that as each sector and its characteristics keep changing over time, the DS, therefore, has to adjust the form of its involvement accordingly.

While a rational combination of roles that a state chooses to play in the economy is important to the success of its intervention, the state’s capacity in effectively performing and fulfilling its roles is equally important. The experience of Japan, South Korea, Brazil and India shows that to be successful in industrial transformation both a right blend of roles that the state selected for each sector and a sufficient capacity of the state for fulfilling its roles were crucial (Evans, 1995, chapter 4). It is, therefore, important when assessing a new case that both the roles that the state selects in each sector and its implementation in practice be valued, so as to reveal the real contribution of that state to the country’s development.

Using selectivity, the DS has to accept some less developed areas during the course of development. However, once the strategic industries have been successfully built, it will shift its priorities to other potentially crucial ones, while at the same time concentrate more on satisfying social demands and increasing welfare. This will help to balance the overall cause of development. Thus, though resulting in uneven and unequal development at initial time, history has shown that selectivity has been an indispensable feature for the success of a DS. In addition, history has also shown that, to be selective, especially to be able to implement industrial policies and to play relevant roles in different sectors, the DS needs an important tool, that is, the centralised and active control of resources, such as finance as analysed earlier, or strategic SOEs as will be seen in chapter 4.

The ideal type of the DS

It is clear that different countries have different levels of development, and possess different political, socio-economic and cultural histories and infrastructures, which will not create identical states in different countries. Additionally, when the internal and external circumstances change, states will have to adjust themselves to cope with the situations. To adapt themselves to the specific conditions, states will have to give up some functions or take on some others. The nuances of states in different countries thus apparently vary over time, however, the elements and features of a DS mentioned so far in this chapter are always crucial to its high and sustainable economic growth. Lacking one or more of them will result in a lesser or unbalanced development outcome compared to the East Asian DS archetypes in their heydays which were once called “miracles.”

Synthesising the works of the major figures who have adopted the DS perspective, a detailed DS model for our study - the ideal type of the DS with all of its ideal-typical elements and characteristics - is comprised of ten elements and features (hereinafter referred to as a ten-part model), namely: (1) developmentally-oriented leadership; (2) competent state bureaucracy; (3) pilot agency; (4) embeddedness; (5) sufficient state autonomy; (6) selectivity; (7) capacity for mastering the market; (8) capacity to organise civil society; (9) capacity to organise private interests; and (10) good performance and legitimacy despite poor human rights.¹ While the first five elements and features relate to the nature and quality of the personnel and organisational structure of the DS apparatus, the next two features illustrate the DS’s effective intervention mechanisms, and the rest refers to the features as the outcomes of the first seven components of the DS.

¹ I relocate them in such an order to make a sense of cause and effect of those elements and features.

It is very important to note here that this ten-part model is theoretically an ideal type of the DS which selects and synthesises almost all essential elements of the substantive developmental states that have actually emerged in the Post-war era. In practice, we have found different substantive forms of developmental states in East Asia and some other parts of the world with different degrees of success. The substantive developmental states may possess the majority of these ideal-typical elements and features (usually just approximate to their ideal degree). Heretofore, only the first developmental states occurring in Japan, South Korea and Taiwan (possibly, including Singapore and Hong Kong) are close to this archetypal model.

Among these ideal-typical elements, we argue here that, to be able to become a DS, a state must initially have at least the following four elements: developmentally-oriented leadership; embeddedness; sufficient state autonomy; and capacity for mastering the market. Later on it must be able to manage private interests by taking control of important resources, especially finance, and play strategic roles in the economy by its selective use of industrial policy. As analysed hereunder, initially with these four indispensable elements, it is very likely that a state can obtain the other elements and features of a DS, but without one of these four it will be difficult for the state to build any other elements.

As we have seen, developmentally-oriented elites with relative autonomy will attempt to build good quality bureaucracies, of which one or a number of agencies will possibly undertake the planning, or to some extent - the piloting, tasks. However, to do this, even the elites need to be embedded in the wider social and political environments of the country to gain their support and cooperation. In addition, according to Evans (1995) embeddedness provides the leadership with internal coherence which is considered a precondition for a DS (Leftwich, 2008). Moreover, sufficient state autonomy implies that the preconditions of that

society are likely to support the concentration of state power (as analysed in the first section). Thus, this also implies that the state is relatively stronger than its society and private interests. Naturally, good performance is a target but also the requirement for a state, if it is to maintain legitimacy and become developmental. But to achieve this target, experience of the developmental states shows that the state needs to be capable of managing private interests (by actively controlling financial resources) and of playing strategic role in the economy (by selective use of industrial policy). Lastly, hitherto all of the emerging developmental states have had to go beyond just the adoption of market mechanisms. In other words, they have had to possess the capacity for mastering the market.¹

In sum, the four elements mentioned above are indispensable parts of the DS model. But to become a DS, a state initially possessing these elements must attempt to construct the other elements and features of the model. And to successfully become a substantive form of developmental state, at a later stage, it must be able to manage the private interests of the country (by its centralised control of resources, notably finance) and strategically lead the development process (by its selective use of industrial policy and state roles), besides, of course, achieving good performance finally.

Although some are more important than others, the aforementioned elements and features of the DS all positively contribute to the effectiveness of this type of state. If a state possesses a full set of these components, then it is an ideal-typical DS. Thus, the possession of this full set of components ideally, or the possession of the majority of them practically as analysed above, is the sufficient criterion for a state to be developmental. Coupled with the abovementioned necessity for a DS to emerge, this sufficient criterion provides a useful theoretical framework for analysing any emerging economies from the DS perspective. This

¹ This also explains why China (and as we will see Vietnam as well) could only become a DS in the post-reform era, when market mechanisms are widely mastered and applied.

analytical framework will also be mainly used to investigate the case of Vietnam in subsequent chapters of this thesis. However, before doing this we need to discuss the methodology for our study.

2.5. Methodology

While we never agree with such conclusion that ‘[w]herever there is or there has been development, there must have been a developmental state’ (Fine, 2007: 3), it is true that one necessary condition for assessing a state as a developmental state is its impressive outcomes (Howell, 2006). In reality, as detailed earlier, Vietnam has been assessed by the World Bank as one of the most successful cases of economic development over the last decade. This suggests that Vietnam has satisfied the necessity for being termed as a DS. This raises an important question whether the DS theory is suitable to explain the case of Vietnam, or how is the DS theory tested by the case of Vietnam? As most generally the DS theory posits a relationship between the developmental role of the state and the substantial economic outcomes of that country, the equivalent question can be asked for the case of Vietnam is “whether the Vietnamese state has been developmental in the course of economic development and transformation.” Likewise, “how has Vietnam achieved its development outcomes?” and “have the Vietnamese state’s actions significantly contributed to its economic growth?” are also similar questions. To answer such questions, it is important to identify the methods to be used and the empirical fields to be studied. The following discussion details the methods used to investigate the case of Vietnam and the political economic issues important to our understanding of Vietnam’s economic development process.

Research methods

In general, the analytical framework for investigating a state from the DS perspective constructed in the previous sections will be intensively used to study the case of Vietnam. As a result, a profound analysis of the Vietnamese state in light of this framework by making qualitative comparisons and contradictions will help to draw an overall picture of the Vietnamese state through the DS prism. To do this, we will focus on analysing the extent to which Vietnam satisfies the necessary criterion for a DS to emerge, and the degree in which the Vietnamese state satisfies the sufficient criterion for it to become a DS. However, to uncover the nature of the roles of the Vietnamese state and its real contribution in each important economic area, as well as in the whole development process of the country, requires much more than just making comparisons and contradictions. Thus, many of the methods of a single-case study will also be employed.

Taking into account the advantages and limitations of case study methods in general and single-case studies in particular, this thesis attempts to make use of the strengths and guard against the weaknesses of the methods. For example, to utilise the ‘high levels of conceptual validity’ of case study methods, special attention will be paid to ‘contextual factors’ and ‘conceptual refinements’ (to avoid ‘conceptual stretching’) (George and Bennett, 2005: 19). In addition, inductive methods (besides deductive approaches) will also be applied in the course of field work through semi-structured interviews, open and informal talks and chats with targeted participants, to take advantage of ‘the heuristic identification of new variables and hypotheses’ of these methods (p.20). Moreover, the ability of these methods ‘to accommodate complex causal relations such as equifinality, complex interactions effects and path dependency’ also requires us to undertake a careful investigation of any possible ‘causal

mechanisms' existing in the case being studied (p.22).¹ On the other hand, the possible limitations and pitfalls of the case study methods, such as 'case selection bias,' the problem of 'underdetermination,' or the weakness of estimating the 'causal weight of variables' are also taken into consideration in the research (pp.22-34).

Most importantly, the strength of case study methods in exploring causal mechanisms will be substantially utilised (p.21), of which the two effective methods of 'the within-case method of causal interpretation,' congruence and process-tracing, will mainly be used in the research (see details of these methods in George and Bennett, 2005: chapter 9 and 10).² The congruence method is used to assess the ability of the theoretical framework and the empirical generalisations of the DS experience synthesised above in explaining the development process of Vietnam. Meanwhile, in order to explore the intervening causal mechanisms existing in the economic development process of Vietnam, the methods of process-tracing are intensively used in the investigation, especially analytical and general explanations.

One important point to note when applying the methods of within-case analysis, especially when making qualitative comparisons between the case of Vietnam and other developmental states, is the consideration of contextual factors. This is because the features of states are not static. Each state has its own distinctive conditions in terms of historical, cultural, political and socio-economic preconditions. Meanwhile the global context keeps

¹ There are a number of concepts that need elaborating here which are defined by George and Bennett (2005): 'causal mechanisms' is defined 'as ultimately unobservable physical, social, or psychological processes through which agents with causal capacities operate, but only in specific contexts or conditions, to transfer energy, information, or matter to other entities' (p.136); 'equifinality' means the existence of 'many alternative casual paths to the same outcomes' in a phenomenon (p.10); complex interaction effects refer to the type of effects caused by 'interacting causal variables that are not independent of each other' (p.212); path dependency is 'a type of causal process in cases that consist of a sequence of events, some of which foreclose certain paths in the development and steer the outcome in other directions' (p.212).

² In the congruence method 'the investigator begins with a theory and then attempts to assess its ability to explain or predict the outcome of a particular case' (George and Bennett, 2005: 181). 'Process-tracing method attempts to identify the intervening causal process – the causal chain and causal mechanism – between an independent variable (or variables) and the outcome of the dependent variable' (p.206).

changing over time and space. Contextual factors are consequently very important and necessarily to be considered.

In addition, this single-case study involves multiple observations, and process-tracing will substantially be used in each of them. To avoid sub-case selection bias, it is necessary that these observations cover the majority of key political economic issues and development areas of Vietnam. Thus, we identify four most important aspects of the Vietnamese state and the country's development process and analyse them hereunder.

Areas of focal investigation

As there are some necessary preconditions for the emergence of a DS, it is important in the first place that we analyse the actual conditions in Vietnam, regarding its cultural, social and political histories and traditions, in light of the preconditions discussed earlier in this chapter, to see whether these specific preconditions of Vietnam were conducive to the emergence of a DS in this country. Secondly, given the ideal-typical model of the DS synthesised above, the Vietnamese state itself, or more specifically, its corresponding constituent components, will be analysed through reflections on those of the model. In so doing, it is necessary to anatomise and scrutinise the Vietnamese state in terms of its constituent components; organisational structures regarding power hierarchies; operational mechanisms relating to decision-making, law-making, policy-issuing and policy-implementing processes; distinctively historical conditions of state building; and its interactions with other social forces. These qualitative comparisons between those of the Vietnamese state and those of the ideal-typical DS will provide an overall picture of the Vietnamese state through the prism of the DS.

Besides the overall picture of the Vietnamese state under the DS perspective, another most important task of this study is to identify the role of the Vietnamese state in the course of economic development. In other words, it is to identify the causal mechanisms of the economic development process in Vietnam. Thus, it is necessary, firstly, to investigate the prominent mechanism of state intervention. The move from the central planning regime to a market-oriented economy means that the state has had to give up many of its used-to-use functions and tools and created new institutions. How it has implemented this process, what it has been using, and how, to insert its intervention in the course of development are important matters to be studied. The questions also include whether the tools, measures and the ways of its intervention are of the developmental type that other developmental states often used; whether those tools and mechanisms have enabled it to remain developmental over the whole development process. The answer to those will reveal the general logic of the state intervention in Vietnam.

Moreover, it is equally important to scrutinise the roles of the state at industry levels. Two major economic sectors, agriculture and industry, will, therefore, become another two central areas of investigation. In each sector, we will need to know the pros and cons, the key players, the state priority, policies and programs towards its development, the outcomes and their relations with the state intervention. Unpacking those matters will identify the role of the state in each of these two sectors.

On the whole, the two major economic sectors, agriculture and industry, and the two above mentioned main angles, the state itself and its principal mechanisms of intervention, make up the four major observations of the case study of Vietnam. The application of ‘multiple process-tracing observations’ in single-case studies ‘greatly reduces’ the weaknesses of this method such as the ‘risk of indeterminacy’ (George and Bennett, 2005: 32). Thus, this

research design will overcome the shortcomings of the single-case study methods and utilise their strengths to explore the nature of the Vietnamese state in the country's economic development process.

Time frame and empirical data sources

In terms of time scale, naturally, there is not much to say about economic development and transformation in Vietnam under the central planning period, but some factors and conditions of the pre-reform period are important and even crucial to the development pattern and outcomes of the post-reform era. Of these factors, the most important are those cultural, social and political traditions and those historical legacies of Vietnam that provide resources to create favourable preconditions for the emergence of a kind of developmental state in Vietnam. In addition, as the reform also had its gestation before being officially announced, some aspects of the economy in the pre-reform period will also be considered. Apart from this, the study will focus mainly on the development process of Vietnam during the time since the reform in 1986.

Concerning empirical data and information, this study draws largely on both primary and secondary sources from internationally and domestically published documents. At the state level, the source of information about the overall directions of the country is mainly from the published documents of the Communist Party of Vietnam (CPV) under the form of congress and plenum resolutions, decisions of the Politburo and directives of the Central Secretariat of the CPV.¹ In addition, official documents issued by the National Assembly, the Government of Vietnam and their agencies under the form of constitutions, laws, decrees,

¹ These documents include political reports by the CPV, development strategies and five-year plans by the government at each congress and resolutions by the Party Central Executive Committee at each plenum. See more about the nature of these documents in subsequent chapters.

decisions, circulars, development strategies and plans are another source of information about the policy-making and policy-implementing processes. In terms of statistical data, the main source is the official statistical reports issued monthly, quarterly and annually by the General Statistics Office of Vietnam (GSO), together with the statistical censuses, surveys, thematic data and other publications issued periodically by this organisation. At lower levels, data and information are obtained through officially published documents of local parties, governments and their functional organs, and through relating corporations' reports and publications.

Another important domestic source of information and data is from domestic printed and online newspapers and a number of books written by some famous scholars, economists and historians of Vietnam. This source is equally important in respect of providing analytical, comparative and critical opinions on the data and information used in this thesis. It is also a source for me to check and verify data and information before deciding to use them.

Regarding the international sources, data and information have mainly been obtained from documents officially published by such international institutions as the World Bank, the IMF, in forms of both paper base or online on their official websites. Such documents are their annual world reports, overview or profile of Vietnam and some critical or analytical works on Vietnam by their experts. Additionally, a large number of books and articles on the developmental state and on Vietnam published in internationally recognised journals or printed by popular publishers have also been used.

Apart from those published sources of data and information, the thesis also uses a significant amount of data and information collected from a number of in-depth, semi-structured interviews organised with people working in related areas, including local political leaders, officials, scholars, businessmen and farmers as well. Particularly, some useful data and information is obtained from many informal talks and chats with people, who I thought

could provide valuable opinions about the real nature of the development process of Vietnam, and tried to get access to and raise chatting topics related to my research without letting them know my investigation purpose.

One important point to note here is that the data and information selected from this variety of sources have been systematically processed to incorporate in more illustrative forms such as charts, tables, diagrams without any distortion. In addition, acknowledging the fact that when the press is still controlled by the state,¹ analysing policies only based on official reports and formal interviews is sometimes not enough to unpack the nature of the development process. Therefore, in studying the case of Vietnam, besides assessing the policies, I have also paid special attention to the implementation of them and their practical impacts on the economy. This attention is particularly necessary as the Vietnamese state capacity is still allegedly limited, the policy implementation process is, therefore, likely to be distorted by implementing people at lower levels. Tracing the policy process from its origins to its practical impacts will enable the thesis to bring about truer outcomes for the analysis.

Conclusion

This chapter has analysed the four most important preconditions whose conjuncture is necessary for the emergence of a DS. The popularity of this type of state in East Asia and the sporadic occurrences of some substantive forms of DS outside East Asia (see Leftwich, 2008) suggest that a DS will probably emerge if the preconditions are available. However, it is arguable that the very distinctive Sino-centric characteristics of many societies in Pacific

¹ The editors of all presses are controlled by the Propaganda organisations at corresponding levels.

Asia, in terms of cultural, social and political traditions and histories, are the main reason for this region to become the site for the DS to emerge.

The Sino-centric history of the region, with Confucianism at the heart of social behaviours and cultural norms, has made many societies of this region hierarchical, disciplined and ordered. In addition, the familial, communitarian and patriotic traditions, together with the custom of accepting minimal individual democratic political life, have allowed the occurrence of coherent states with concentration of power - the initial resources to construct the DS. As far as the preconditions for the emergence of a DS is concerned, it is also argued that the external support is important to the emergence of a DS and to the degree of its success, but this factor is not indispensable, as China (and, as we shall see, Vietnam as well) have already emerged as developmental states without such condition. The conjuncture of these four preconditions is, therefore, the necessary criterion for the emergence of a DS.

This chapter has also pointed out that, given the availability of the conjuncture of such preconditions, to become a DS the state in context must possess some special elements and features which enable it to develop and transform its economy rapidly and successfully. While Johnson (1982) points out four components and features in his sketchy model for a successful DS based mostly on Japan's post-war experience, Leftwich (1995; 2000) summarises six most important features of many successfully transformational states, both inside and outside East Asia, and constructs a more detailed model. Building on these findings and drawing on Evans's (1995) work, this chapter has incorporated their findings into a ten-part model of the DS comprising a more complete set of elements and features of the ideal-typical DS.

Apparently, in the strict sense of the DS concept, to be termed as a DS one state must possess all of these ten elements and features. However, in the reality of the world economy, the developmental states which have emerged are only expressed in different substantive

forms and different degrees. As a result, a new state, if it is still possible to emerge as another DS, might also take a substantive form of the DS, and only possess a certain degree of the ideal-typical elements and characteristics of the archetypal DS.

Regarding the order of importance of the ideal-typical elements and characteristics, this chapter has argued that given the existence of the four most important features of these ten components - developmentally-oriented leadership; embeddedness; sufficient state autonomy; and capacity for mastering the market - it is still likely for a state to become a substantive form of DS with substantial economic outcomes. Such outcomes will be obtained when this state attempts to construct other elements of the model, and succeeds at least in managing private interests (by controlling financial resources), in playing strategic, developmental roles in the economy (by selective use of industrial policy), and ultimately in achieving good outcomes. Thus, in reality, although some states may not have all of these ten components, if they possess the majority of them, especially those most important components, they might still be substantially developmental in the courses of their economic development and transformation. As a result, the sufficient criterion for a state to be developmental is ideally the possession of all of these ten components, or is practically the possession of the majority of them, including the most important components pointed out earlier.

This chapter has also built the theoretical framework and methodology for investigating a new state from the DS perspective, especially the case of Vietnam. The necessity for a DS to emerge and the sufficiency for a state to be developmental compose the centre of our analytical framework. In valuing a new case, firstly, in the light of this necessary criterion, we will analyse the conditions of the country in which the state in question has emerged. Then we will scrutinise the elements and features of this state through the lenses of the sufficient criterion. However, besides such comparative analyses, we still need to look at each

individual case, as the state features are not static; each state has its own distinctive conditions, in terms of historical, cultural, political and socio-economic preconditions, while the global context keeps changing over time and space. Consequently, for the investigation of Vietnam, this chapter has also identified three more major areas of focus (the state's main intervention mechanisms, its roles and contribution in agriculture and in industry), so as to uncover the real nature of the Vietnamese state in the development processes of the country's major economic sectors. In analysing these sectors, within-case analysis methods, mainly process-tracing and congruence, will be largely employed. As those areas almost entirely cover all important aspects of a state and its relations with the economy and society, the coming detailed analyses of them in the last four chapters will reflect the real nature of the Vietnamese state in an unbiased manner from the DS perspective. Proceeding from general to particular, the next chapter will deal with an overall picture of Vietnam.

Chapter 3: Vietnam through the Developmental State Prism

As states are ‘the product of the interaction between internal and external political processes in the context of their historical legacies,’ to fully understand their nature requires us to investigate their historical legacies, socio-economic and political structures, cultural patterns, ideologies and challenges which vary from case to case (Leftwich, 2008: 5, 11). In the case of Vietnam, its cultural, social and political traditions are the reflections of its long history and greatly influenced by Chinese feudal traditions, making it most imprinted by the Sino-centric features. Even after the feudal age, Vietnam’s history continued to record the dominance and influence of more powerful nations over it, and it fought a series of wars of resistance and protection as a consequence. Despite remarkable victories against two much more powerful countries (France and America), in the aftermath of these wars, Vietnam was exhausted and its infrastructure was largely destroyed.¹ Together with a very low starting point from the independence in 1945 (Ho, 1945),² these two continuous lengthy wars, the wars against Cambodia then China and the persistent armed conflicts along Vietnam-Thailand border made the beginning of the new era and Vietnam’s attempts to construct socialism on a national scale became ever harder (Kolko, 1986).

Regarding the economic sphere, the economic development process of Vietnam since the country’s independence in 1945 has undergone three principal phases. The first phase saw the existence of a multi-sector economy and free trade, which lasted until 1957, when the state decided to switch to the central planning model prevailing in Vietnam’s influential allies as

¹ The statistics of only the American war shows that about 7 million tons of bombs was dropped on Vietnam, which is about ‘two-and-a-half times the total tonnage dropped on Germany’ during the Second World War. More than 2 million Vietnamese people were killed, and about 3.3 million were wounded (Sun Tzu, 2002).

² The low starting point was clearly vindicated by the hunger of 1945 causing deaths to more than 2 million people. We will see more of this in chapters 5 and 6 analysing Vietnam’s agriculture and industry.

the Soviet Union and China. The second phase started from this point of time to 1986 when the radical reform was started, which saw tireless attempts of the state at intensifying the central planning system (CPS) and a number of partial reforms to repair the system's flaws. The last phase is the reforming period commencing in 1986 with significant achievements in economic development and transformation. As we shall see, the turn from the first to the second phase, with the enduring existence and consolidation of the CPS, vividly reflected the state's demand for power concentration and thus its special attempts at centralising the economy, although this turn was also a consequence of both ideational and material path dependency. While the turn to the third phase was a hard struggle in political thinking, and the reform of 1986 was a result of the conjunction of historical factors, of which the emergence of the political elites resolutely committed to the reform and long-term development was crucial.

As far as the post-reform period is concerned, the recent achievements of Vietnam in economic development and transformation have been significant. Maintaining a stable high growth rate of real GDP of 7.3% annually over two decades since 1990 (GSO, 2012) has transformed the country from chronic poverty to a world-leading exporter of some agricultural products and a significantly higher industrial content economy.¹ In the eye of many observers, the case of Vietnam has become increasingly important as a successful, rapidly developing economy in the 'periphery' of the global economy. As such it has potentially important theoretical and - even more importantly from the perspective of other emerging market economies - practical lessons.

However, a good outcome is not sufficient to mark a state as developmental. To help us understand more about the overall picture of Vietnam from the DS perspective, this chapter

¹ Compared to 1990, the real GDP of Vietnam in 2010 increased by more than fourfold (from 131,968 to 551,609 billion VND in 1994 price), the average year on year growth rate is about 7.3095%. And as will be seen in chapter 6, the share of industry (including construction) in GDP rose from about 25% in 1990 to above 40% in 2009 (see also, for example, Thanh Mai, 2011)

undertakes two major tasks. Firstly, in the light of the necessary preconditions for the emergence of a DS summarised in chapter 2, this chapter analyses and assesses the historical conditions in Vietnam, in terms of cultural, social and political traditions, and the socio-economic and political circumstances, especially around the 1986 reform. We argue that Vietnam around the 1986 reform had a conjuncture of all necessary conditions for the emergence of a DS. Secondly, by reflecting on the elements and features of the ideal-typical DS model synthesised in chapter 2, this chapter investigates and assesses the Vietnamese state's constituent components and features. The comparisons suggest that the Vietnamese state has generally possessed the majority of the elements and features of the ideal-typical DS, including all of the most important components, although the limitations of its bureaucracy and pilot agencies have affected the overall efficiency of the state.

The structure of this chapter includes 5 sections. The first four sections are devoted to the analysis of Vietnam's historical values and the factors that contributed to the reform of 1986. The first section investigates the long pre-colonial history of Vietnam and highlights the influence of historical factors upon the cultural, social and political features of Vietnam's modern society. The second and third sections focus on Vietnam's process of development since the independence, with special attention paid to the central planning period and the reform, respectively. These two sections attempt to explore the explanation for the occurrence and long existence of the CPS and the gestation and commencement of the reform, with much attention paid to the state's urgent need for centralising and concentrating power for its most prioritised purpose of winning the wars. To provide an overall picture of the Vietnamese state and society, the fourth section sketches the politico-economic system of Vietnam, which suggests that the very nature of the organisational structure of the Vietnamese state (a party-state system), together with the distinctive way of controlling the society, has given much

autonomy to the state in making decisions on important development issues. From the first four sections, we can draw a firm conclusion about the presence of a conjuncture of all preconditions necessary for a DS to emerge in Vietnam around the 1986 reform. In order to assess the Vietnamese state through the lenses of the DS, the final section analyses the similarities and differences between the elements and features of the Vietnamese state and those of the ideal-typical DS.

3.1. On the Long History of Vietnam

In this section we will see that the history of Vietnam in feudal times was largely affected and influenced by the expanding Chinese empires. This made Vietnam into a society heavily influenced by Sinocentrism, with the domination of the Chinese cultural, social and political traditions. In addition, the section will also highlight the emergence of the CPV at the time the Vietnamese people had desperately longed for a force that could help liberate them from the misery and hardship of being colonised and exploited. Besides succeeding in establishing an independent country, by the 1980s the CPV had successfully led the country's revolution to overcome a myriad of challenges and difficulties, and achieved many victories over its enemies, defending the nation and the regime. This is the condition that has provided the CPV and its state with intensifying legitimacy and power concentration.

Vietnam's pre-colonial era and its cultural, social and political features

It is clear that Vietnam's cultural and social history has been heavily influenced by that of China. This originates from the long history of thousands of years when Vietnam was largely conquered and influenced by the expanding Chinese feudal empires (Nguyen K.V., 1999).

Particularly, Vietnam had a long period under complete domination of the Northern feudal emperors. More profoundly, in more than a millennium under their complete rule and occupation (almost continuously from 208 BC until 938 AD),¹ the Chinese dynasties attempted to assimilate the Vietnamese people into the Chinese identity (Dao, 1951). Besides applying their own governance style, language and writing system (Han scripts - Mandarin), the Chinese rulers forced the Vietnamese people to follow and adopt Chinese values, including their culture, rituals, Confucianism, Taoism, and even the Chinese styles of clothing and hair (Dao, 2005; Phan et al., 1991). Although the Vietnamese people did attempt to maintain their national identity, the long domination with such intensifying assimilation policies made Vietnam profoundly influenced by the Chinese cultural, social and political traditions and norms, especially when a proportion of Vietnamese people also admired many of these cultural values and social norms (Dao, 2005; Ronald, 1987).

Given the long dependent history, the Sino-centric feature is arguable most prominent in Vietnam. Even in independent periods, as a small state bordering to a great expanding empire, the majority of the Vietnamese feudal dynasties had to try to maintain good relations with the Chinese emperors (Nguyen and Healy, 2002). This made the adoption of Chinese cultural values popular in almost all dynasties of Vietnam. The educational system, the language and writing systems were largely affected by, and even reliant on, those of China (Ronald, 1987). During the Chinese period of domination, Mandarin was officially used as the administrative language. Even though during the period of independence (938-1407 and 1427-1858 AD) Vietnam invented a language system and writing scripts of its own (the Nom system - which was derived from the Chinese ideographs - Mandarin), this system was only used in

¹ Some sources view Zhao Dynasty (Trieu Dynasty) ruling the South Yuè Kingdom (Nam Viet) during 207-111 BC as a Vietnamese feudal dynasty, thus regarding the Chinese Domination of Vietnam from 111 BC. However, the majority of Vietnam's historians view Zhao Dynasty as a Chinese feudal regime, and thus the Chinese Domination period starting from 208 BC.

composing literature and poems; the official administrative language was still Mandarin (Dao, 2005; Ngo and Nguyen, 2004). And although the current (modern) Vietnamese writing system was developed from the 17th century, it has been officially employed by the French colonisers only since the beginning of the 20th century. Likewise, learning and teaching Confucianism were also the main focus of Vietnam's feudal educational system (Ronald, 1987). As a result, Vietnam also had a society mainly based on familial and communitarian traditions with a hierarchical and disciplined order. Additionally, the Vietnamese people also have little individual political and public participation, they usually show loyalty to Vietnamese legitimate states, respect for Vietnamese legitimate kings and rulers, and always carry an intense spirit of patriotism and nationalism (Phan, et al., 1991).

The colonial period and the emergence of the CPV

Although largely affected and influenced by the Chinese cultural and traditional values, Vietnam's people are proud of their four-thousand-year history of building and protecting the nation.¹ They also take pride in being able to claim independence from, and not being homogenised by, the Chinese People, despite over a millennium under their occupation and rule. When the French invaded Vietnam in 1858, it was still a feudal country. Facing significant resistance, the French needed more than 30 years to set up its protectorate over Vietnam. The French colonisers maintained this system to create a semi-feudal colonial regime in Vietnam during the colonial period (Ronald, 1987). The king was still existent, but the real power rested with the colonisers. As the coloniser's followers, the kings were considered by the majority of the Vietnamese people as reactionaries. Additionally, the

¹ The duration of Vietnamese history is still debatable. Many works mention a four thousand year history of Vietnam. However, some analyses show that Van Lang State, the first well-organised state in Vietnam's history, was established in the 7th century B.C (see more in AseanVietnam2010, dated 18 October, 2009).

extremely exploitative colonising regime imposed by the French made the Vietnamese people's lives very difficult. As a result, since the French occupation, Vietnam's history had seen a large number of patriotic and anti-French movements (Phan, et al., 1991). However, none had been successful until the foundation of the Communist Party of Vietnam on 3 February 1930, and the consolidation of what is described in Vietnam as a proletarian revolution.¹ Under the leadership of the CPV, Vietnam's revolution gained important partial victories in 1931 (Xo Viet Nghe Tinh Movement) and 1936-1939 (Workers' Democratic Movement). This gave the citizens (notably the workers and farmers) more confidence in the CPV and its revolution path.

The chaos during the Second World War actually gave the CPV a great opportunity to liberate the country. When Vichy France surrendered to Nazi Germany in September 1940, France allowed the Japanese troops to enter Vietnam (Gilbert, 2009), while still maintaining the existing semi-feudal colonial system. The lives of Vietnam's people therefore became even harder, as described as "one neck with three or four nooses" (Huu Mai, 2006). The desire for liberation and freedom from those kinds of oppression accumulated and became urgent among the majority of the Vietnamese people as a consequence. The CPV thus received substantial support from the majority of the people. When the Japanese overthrew the French in March 1945, the CPV started increasing its anti-French and anti-Japanese actions (Solheim, 2006). Taking the opportunity of the international context of 1945, when the United States and its allies defeated the fascist forces and Japan surrendered in August 1945, the CPV with its armed force led the citizens to overthrow the Japanese colonial regime

¹ The name of the Communist Party of Vietnam has been changed several times since its foundation. Founded on 3 February 1930 under the name of the Communist Party of Vietnam, then it was renamed for the first time as the Communist Party of Indochina in October, 1930. On 11 November 1945 the Communist Party of Indochina declared to dissolve but actually continued to operate secretly. The party then came into open operation again in February 1951 under the name of the Vietnam Workers' Party. This name existed until December 1976, then, it was renamed as the Communist Party of Vietnam again and has remained so since then.

and claimed independence in 1945. The Democratic Republic of Vietnam (DRV) was promptly founded on 2 September 1945, which was marked by the Declaration of Independence by Ho Chi Minh, the founder of the CPV. Thus, the CPV and the DRV received substantial and increasing support from the majority of the Vietnamese people, which allowed them to achieve important successes which, in turn, consolidated and strengthened their legitimacy and power over time.

A series of wars since the independence

However, ‘gaining power is so hard, keeping it is even harder.’¹ Vietnam’s recent traumatic history was also clearly marked by many wars, especially two lengthy, fierce and disastrous wars against the French and the Americans (the First and Second Indochina Wars). Soon after the first National Day,² the French troops returned to Vietnam, the situation at that time was extremely difficult and disadvantageous for the newly-established government of Vietnam (the DRV - which even had not been recognised by the United Nations), as of the pervasive presence of the troops of four different countries - Japan, Taiwan, France and Britain (Huu Mai, 2006). To cope with that tangible danger, the DRV government had to compromise with the French on allowing its troops to move to the North to replace the Taiwanese troops and disarm the Japanese troops. This was considered as ‘an ingenious choice,’ as it was made in order to avoid simultaneously opposing too many strong enemies when the DRV government was still too weak, and needed time to prepare and consolidate (Huu Mai, 2006). The DRV understood that another war would be unavoidable. In early 1946, the French clearly exhibited

¹ That is what President Ho Chi Minh told other Vietnamese leaders before leaving Tan Trao for Hanoi by citing Lenin’s words: “Giành chính quyền đã khó, giữ chính quyền còn khó khăn hơn.” See in *Baomoi.com* at: <http://www.baomoi.com/Gianh-chinh-quyen-da-kho-giu-chinh-quyen-con-kho-hon/122/4739667.epi>. Accessed: April, 2011.

² The 2nd of September, 1945 Ho Chi Minh read the Declaration of Independence, ‘giving birth’ to the DRV, since then, this day has become the National Day of Vietnam.

its purpose of trying to re-establish the colonial system. Vietnam's new government and its exhausted people had to re-enter yet another 9-year war against the French, which ended with the famous victory of Dien Bien Phu, in July 1954 and the signing of the Geneva Accord. Since then, the country was divided into two, the North and the South bordered by the 17th parallel. Moreover, soon after the French troops withdrew, America started occupying the South, beginning a new period of building socialism in the North and fighting against the Americans in the South since 1955 for the DRV.¹ Another 20-year struggle devastated the country, turning it into one of the poorest nations after reunification in 1975.

But the Vietnamese state and people did not have time to enjoy their victory over the world's most powerful nation, as they immediately had to face serious threats along the southwest border from the troops of the Khmer Rouge - the Democratic Kampuchea. The matter was far more complicated and challenging than just a war against the Democratic Kampuchea, as this regime was actually supported and nurtured by the People's Republic of China (Morris, 1999). This war actually involved China, and originated from the tension between Vietnam and China, when Vietnam refused to denounce the Soviet Union (O'Dowd, 2007). Indeed, Vietnam had found itself in a dilemma of reconciling its relations with both China and the Soviet Union. The failure to maintain an alliance with China led to the continuous provocation and assaults from the Khmer Rouge along the southwest border of Vietnam. Additionally, the failure of all attempts at diplomatic negotiations, the accelerating attacking and intruding actions by the Democratic Kampuchea, together with its extremely brutal nature (massacring thousands of Vietnamese civilians), forced Vietnam to embark on a full-scale military campaign to defeat the Khmer Rouge and remove this regime (in late 1978 and early 1979), as the only thorough solution to the problem (Morris, 1999; O'Dowd, 2007).

¹ America had aided France before that, but it officially occupied the South after the French withdrew.

Having defeated its former Cambodian ally, Vietnam soon faced tough retaliation from China (Chanda, 1986). This resulted in the Sino-Vietnamese War, or the ‘Third Indochina War,’ at the beginning of 1979. Although this war lasted for only 28 days, and ended shortly by the Chinese withdrawal of troops, it illustrated the peak of the tension and conflict between Vietnam and China. Consequently, the relation between Vietnam and China in the following years was always strained, and attacks and raids along the border of the two countries continued until 1988 (Hoang, 2000). As a consequence of the Cambodian-Vietnamese War, Vietnam was strongly criticised and embargoed by the world. Moreover, Vietnam had to continue coping with the remnants of the Khmer Rouge troops gathering in Thai territory and supported by the Thai authority, which also led to tension and conflict between Vietnam and Thailand along the border of the two countries until 1989 (Hoang, 2000). In short, the situation of Vietnam during the 1980s shows that, despite its important victory over the Americans and the consequent success in reunifying the country, the country was still facing many threats from external enemies.

On the whole, although the incidence of “war after war” caused extreme casualties and losses to the Vietnamese people, and forced the state of Vietnam (both the DRV and the reunified Vietnam) to focus mainly on defending the regime and the nation, as ‘war made the state’ (Tilly, 1975: 42) this incidence had also allowed the CPV and the Vietnamese state to continuously consolidate, strengthen and concentrate their power. The morale-boosting victories of these wars confirmed and reaffirmed the unchallengeable position and legitimacy of the CPV and the Vietnamese state among the Vietnamese people. However, the miserable experience of the wars and the tense relations between Vietnam and other countries, notably China, Thailand and Khmer Rouge remnants throughout the 1980s, also well informed the Vietnamese state and its people that the continuing demand for supporting the regime and

strengthening the state was still necessary in the years ahead. Together with the distinctive cultural, social and political features heavily influenced by China's feudalism as analysed earlier, the history of Vietnam since the CPV was founded has actually led to the consolidation and concentration of power in the Vietnamese state and the intensification of coherence of the CPV and its regime. As we will see, this feature has also been illustrated in the economic arena wherein the state could persuade (and also force) the Vietnamese people to adopt a production mode, in order to centralise resources and compromise with its allies, even though the mechanism was practically irrational and inefficient.

3.2. Vietnam and the Central Planning System

Given the history of continuously facing stronger nations, wars of resistance have become common for the Vietnamese people, and were always given the highest priority. In fighting powerful enemies, besides the need for centralising its power and resources, Vietnam often had to rely on its allies. However, in exchange for this, Vietnamese leaders have sometimes had to compromise national interests and perspectives to satisfy their allies. As will be seen in this section, in the initial years following the independence, free trade was actually seen as an attractive option sometimes, and whenever they occurred the economic conditions of the DRV were improved (Pham and Vuong, 2009: 53-5, 65-72). But as the first priority was given to the ultimate victory of the war, the concentration of resources and the allies' support were more important to the DRV state. As a result, and also because of the allies' pressure, the DRV abandoned free trade actions, and centralised its economy to follow the model prevailing in the contemporary socialist countries.

The attractions of free trade

Despite relying on Marxist Leninism as the “lodestar” for all revolutionary activities, during the first decade since the independence, the DRV economy was not highly centrally-planned. In contrast, the ideas of free trade and a multi-sector economy did appear some times, although the period of late 1970s and early 1980s saw a high level of the economic central planning. This suggests that the potential value of free trade was indeed understood by the very newly-installed government, due to its actual actions and the observable outcomes.

For example, after claiming independence in 1945, the provisional government dismantled the regulations restricting the transportation of rice imposed earlier by the colonists, encouraged private entrepreneurs to restore production, and protected landlords’ property rights (Dang and Beresford, 1998: 18). In addition, the government also encouraged free trade and circulation of goods throughout the country. Meanwhile, the ideas of international cooperation and widening international trade on equal and mutual beneficial bases also appeared (Pham and Vuong, 2009: 53-4).

The second time that ideas about trade liberalisation appeared was immediately after the French war. The resolution of September 1954 contained some points of ‘surprisingly open’ ideas on the structure of accepted economic entities in the economy, especially the encouragement of foreign capital (Pham and Vuong, 2009: 65). According to this resolution, the state would guarantee private commerce and industry, accept the landlord’s commerce and industry, and would not confiscate, boycott or take over those of the French. In addition, the state also encouraged to restore and develop any kind of commerce and industry that was of benefit to the people and economy. Moreover, the first priority was given to the development of production and the prosperity of the country (CPV, 2001c: 288-96).

Following this resolution, the 11th central meeting in December 1956 outlined the direction to develop the economy. Specifically, it ‘criticised the attitudes differentiating private sector, looking down upon traders... and reaffirmed that the direction and measures comprised the development of multiple economic sectors, the push of agriculture, and rational development of state sector’ (CPV, 2002: 678-9). As a result, in 1956, the private economic sector flourished and contributed a share of 55% to the total industrial output, and 58% to the whole national retail value of the DRV (Pham and Vuong, 2009: 71). The impacts of these political economic policies were clearly observed in the rapid change in the economy of the DRV at that time. In late 1956 and early 1957, the DRV economy operated in a happy environment, material and personal lives were improved, the shortage of necessities decreased significantly, although the war had ended for only two years (Pham and Vuong, 2009: 72).

The above information suggests that the DRV government did realise the importance of the market, more specifically, the role of private economic entities, the benefit of free trade in the domestic market, and even the importance of foreign investment. However, arguably, due to some more important factors with their political origins (as will be seen in the last subsection) the DRV state had to change these kinds of initiatives and ideas in the following years.

Centralising the economy

Despite the promising economic outcomes of 1956 and 1957, the state decided to make a radical change that did not help to maintain, but conversely took away, the momentum of economic growth. The 14th and 16th meetings of November 1958 and April 1959 decided to ‘collectivise agriculture, quickly reform commercial and industrial capitalists, and ban the free

market’ (Pham and Vuong, 2009: 72).¹ All decisions and measures posed in these two meetings were in stark contrast to what had been applied since the 11th meeting of 1956.

After that, the Third Congress in June 1960 built the 5-year plan of 1961-1965, which set out the period of identifying the way of constructing the socialist economy in the North by applying the decisions and measures posed in the 14th and 16th meetings (CPV, 1960). Then, the 10th central meeting in December 1964 mainly discussed the commercial, industrial and pricing work, decided the policies, measures on distribution, circulation and pricing. This resolution established the model of commercial, industrial and pricing system in the wartime which formed an important part of the CPS. In this system, the state entirely controlled what, how much and to whom to produce. As no other congresses were held between 1960 and 1975 due to the wartime, those directions kept valid until 1975 (Pham and Vuong, 2009: 72).

Thus, the time since 1958 had seen a process of increasing centralisation of the economy. This happened despite many difficulties that the new mechanism had caused, and despite the clear comparison between the economic conditions before and after applying it. How this happened? The next sub-section provides some possible reasons.

The cause of the enduring existence of the CPS

There were a number of reasons why the process of economic centralisation in Vietnam continued to be consolidated and strengthened, regardless of a myriad of difficulties and some resistance right from the beginning. To fully understand the distinctive situation of Vietnam, those reasons must be placed under the historical context of the country during this period.

Firstly, at the time of independence, the legacies of the old regimes were negligible, especially in terms of human resources.¹ The DRV faced enormous challenges in constructing

¹ It is noteworthy that the term “reform” (*cai tao*) here has its nuanced meaning as “eradicate” rather than reform normally understood as “innovation” or “renovation” in many other cases.

a state apparatus from very limited resources (Pham and Vuong, 2009: 52). In addition, due to the fact that the majority of Vietnamese cadres since 1955 had been trained in the Soviet Union and China, together with significant support and influence from a large number of advisers from these two countries (Dang and Beresford, 1998: 19-20), the state capacity of the DRV could hardly go beyond what was happening and applied in these two countries.

Secondly, that the socialist economic model (SEM) was dominant in the Soviet Union and China while these two countries were heavily influencing the DRV made its leaders feel obliged to comply with the SEM. As shown earlier, the possible advantages of free trade and private economic sector had actually been recognised by the DRV leadership. However, as the international influence increased from 1957, the DRV had no other choice but to follow the commitments stated in the two Joint Statements that it signed in 1957 and 1960.² This is because the support from the socialist countries, notably the Soviet Union and China, was vital to the DRV in the war against the US, so the DRV was most afraid of being punished and excluded by the socialist camp as the case of Yugoslavia (Dang, 2009: 63).

More particularly, to gain more support from socialist countries the DRV also wanted to show its enthusiasm. This was clearly manifested in the attitude of the CPV expressed in the Editorials of the People's Newspaper (*BaoNhanDan*) on 7 December 1960 as:

Over the past three years, our party has been absolutely faithful to the Joint Statement of 1957. From now on, the same as the Joint Statement of 1957, our party will willingly support and follow the new [1960's] Joint Statement thoroughly (Dang, 2009: 63).³

¹ Only a few hundred people had college, university or equivalent qualifications and over 90% of the population was illiterate, see more in Pham and Vuong, 2009.

² Those Joint Statements set out very clear the way that the socialist countries would follow. One of the general principles stated in the Joint Statement of 1957, for example, is: 'kill the regime of capitalist ownership and build the regime of public ownership.' See more in Dang, 2009: 60-1.

³ Translated from the Editorials of the People's Newspaper (*Bai Xa luan Bao Nhan Dan*) on 7 December 1960, requoted in (Dang, 2009: 63).

Even the resolution of the Third Congress in June 1960, which was largely based on the contents of the Joint Statement of 1957, was valued as ‘entirely right and relevant to common strategic and tactical tasks of the international communist movement’ (Dang, 2009: 63). The empirical record demonstrates the strong influence of the socialist camp, and the responsive attitude of Vietnam’s political elites in conforming to the commitments.

Thirdly, thanks to the socialist revolutionary path, the DRV state led the country to continuous victories in the wars against enemies, including biggest powers. Thus, Marxist-Leninism became the unchallengeable theoretical orthodoxy for the whole political system. In addition, the Soviet Union was a vivid mirror for the success of socialism and became the aspiration for the DRV to reach one day (Dang, 2009: 67). Consequently, not only the leadership, but also the whole personnel system was inspired by Marxist-Leninism and the economic model applied in the Soviet Union. As a result, the DRV leadership at that time had such a strong belief in the economic model pointed out in this theory that it was impossible to be changed. During this period Marxist-Leninism became ‘the truth,’ the first generation of political leaders became idols, and opposition to their beliefs was effectively outlawed (pp.65-9). Only the political leaders, not the technocrats, could decide the country’s development directions. Thus, international responsibility resonating with inspiration made the DRV leadership absolutely enthusiastic about building the SEM.

Fourthly, for more than a quarter of century since 1960, Vietnam was deeply imprinted by Party General Secretary (PGS) Le Duan, who was considered as the main architect of the CPS (Dang, 2009: 72-3). Inspired by the idea of large-scale socialist production, he persistently and enthusiastically led the whole political system in implementing the moulding of the CPS in Vietnam. As other contemporary leaders, PGS Le Duan also had a strong belief in the supremacy of the SEM (pp.72-90). In addition, due to his immense prestige and

personal charisma, he always rejected all other opinions different from his (Dang and Beresford, 1998: 64-6). In harmony with others' major view that the American war was the main cause affecting the efficiency of the model, he decided to apply the same model of the DRV in the whole unified country, despite its earlier failures (Dang, 2009: 97-8).

The last cause, but arguably the most important one, is the legitimacy and trust that the Vietnamese people had given to the state that allowed it to mobilise resources for the most prioritised purpose of the nation - winning the resistance wars. It is debatable whether without the central planning mechanism in wartime, Vietnam could have won the wars or not. Though this mechanism in peacetime exposed many defects and caused a serious crisis, its great contribution to the war victories was undeniable (Dang, 2009). As a unique instrument of control, the state could centralise and mobilise substantial resources for more prioritised purposes. During the wartime, a familiar political slogan for all people, 'all for the front line,' made people work harder without claiming for their own benefit (Pham and Vuong, 2009). Likewise, the movement of people at home sacrificing for the front line troops was always in high spirits (Dang, 2009). Such kinds of support and sacrifice were arguably crucial to the war victories.¹

In short, despite acknowledging the possible benefits that free trade and an economic structure of multiple entities might bring to the economy, the DRV state still decided to radically change its economic model, even it faced many difficulties right from the beginning. Arguably, the selection, consolidation and strengthening of the CPS in Vietnam were originated from the convergence of a number of historical factors and political causes, such as

¹ One piece of information should make this clearer is that the cost of the United States involvement in the war in Vietnam was estimated at 140 billion USD (Sun Tzu, 2002), however, they still lost the battle. By contrast, the total resources that Vietnam mobilised for the wars might be smaller absolutely but greater relatively, especially given the very low production capacity and productivity at that time.

the heavy influence from the socialist camp, the top leader's strong belief in the supremacy of the SEM, and the phenomenon of individual cult and idolisation. However, the political origin of this choice was arguably the Vietnamese state's urgent need for, and thus its special attempts at, centralising and concentrating power and resources, while the original reason for the possibility of intensifying this process was the popular support and credit that the CPV and its state had received from the Vietnamese people.

Regardless of the great contribution of the CPS to the war victories, the application of it in the peacetime development proved irrational. How the change in production mode took place in Vietnam will be seen in the following part.

3.3. Vietnam and the Reform

It is true that the very struggles in the real economic life, with increasing difficulties that seemed impossible to overcome, made the struggle in economic thinking and perception gradually incline towards reformist dominance (Dang, 2009). The radical reform announced at the Sixth Congress was truly the accumulation and outcome of those struggle processes.¹ But the reform might not have occurred if there had not been a historical change of the top leader, and the firm commitment to a radical reform of the successive ones. More importantly, even the change of the top leader did occur, if without an increasing struggle in the leadership before that, in which the reformist thinking emerged and developed over time, the radical change would arguably hardly have happened. But the emergence of the reformist thinking was arguably facilitated by the very difficult condition around the time that it emerged.

¹ This is what Fforde and Vylder (1996) describe as a bottom-up process of change, or what Kertvliet (2005) emphasises as the power of every day politics of the peasantry.

Vietnam's conditions around the 1986 reform

The conditions in Vietnam, in terms of both security and economy, in the late 1970s and the early 1980s were very difficult. The war against the Democratic Kampuchea broke out and still lasted, leading to persistent armed conflicts along Vietnam-Thailand border. The war with China broke out as a consequence, then temporarily ended, but was still threatening to happen again any time, due to the continually strained relations and regular border skirmishes between the two countries. Additionally, the limited reactions of the Soviet Union when China started war on Vietnam also implied that the reliance on this cooperation had its limit.

In terms of economy, the war against China also meant an end of Chinese aid which already started decreasing from 1975 and ended in 1978 (O'Dowd, 2007). In addition, due to those two wars, Vietnam was badly criticised by, and thus isolated from, the outside world. This made Vietnam mainly dependent on the Soviet Union and other countries of the Council for Mutual Economic Assistance - Comecon (MacFarquhar and Fairbank, 1991). Although the Soviet Union maintained a high level of aid for Vietnam in the early 1980s, the weak production capacity of the economy exacerbated the situation. Vietnam had to rely on the Soviet Union for the supply of 90% of its demand for petroleum, iron; 90% of its imports of steel, fertilizer and cotton; and 70% of its grain imports (Ronald, 1987). However, the friction, though not yet severe, between Vietnam and the Soviet Union, especially on the enormous burden of the aid program, and a clear decrease in annual aids in the 1980s warned the Vietnamese state that it could not view foreign aid as a long-term source of revenue. At the same time, the nation-wide application of the CPS proved very inefficient, especially in the south (Tran, 1998). This created a severe shortage of products and led to rampant inflation at its peak of 775% in 1986 (Vo H. D., 2008).

On the whole, in the mid 1980s, Vietnam was facing severe threats from both inside and outside the country, regarding economic as well as security spheres. This situation was arguably one of the main causes that encouraged the leadership of the country to compromise with each other on a more pragmatic and feasible economic development program for the country. This consequently led to the crucial change in the economic model declared at the Sixth Party Congress in 1986. Soon afterwards, the collapse of the Soviet Block in the early 1990s further reaffirmed the rationality of the 1986 reform. But, more importantly, it forced the Vietnamese state to deepen the reform as the only choice, especially due to the tangible drop of aid, while simultaneously allowing the CPV and its state to follow a less doctrinaire path of development. As a result, after a long debate, the political leadership of Vietnam finally compromised on the ultimate target for Vietnam's development process being to build a Vietnam of 'rich people, strong nation, equal, democratic and civilised society' (CPV, 2006c; Tran, 2007). However, as we will see, this radical change had a long gestation wherein the emergence of a political leadership resolutely committed to the reform and development of the country was essential.

Struggle and personal significance

As pointed out earlier, between 1960 and 1986, Vietnam was deeply imprinted by one leader, PGS Le Duan, who has been well-known as an admirer of the Stalinist economic model. His advocacy of 'the large-scale socialist production' and 'the complete state control of all markets' enhanced the CPS over time and blocked any radical changes, despite his ambition having its root from his very benevolent perception that 'the state is to supply its citizens with

every necessity' (Tran, 2002).¹ As a figure deciding the victory of the war liberating the South, reuniting the nation, he was such a powerful leader that could overshadow all others and reject any ideas that sounded unreasonable or diverted from the socialist economic model (Dang, 2009: 78).

However, things started changing when the Soviet Union sent a delegation of specialists to Vietnam to teach Lenin's New Economic Policy (NEP) to Vietnamese specialists and high-ranking officers from March 1979.² This event was arguably crucial to the change of economic thinking and perception among contemporary Vietnamese leaders and specialists. One reason is that the NEP was a product of Lenin, one international leader that had been most influential and respected in Vietnam. Another is the reality that Vietnam had signed a treaty of outright cooperation with the Soviet Union, thus specialists of the Soviet Union had a strong voice on Vietnam's economic circles. Last but not least, Lenin's NEP pointed out precisely what the economy of Vietnam at that time needed, as Vietnam was facing the same situation as the Soviet Union around 1920 (Dang, 2009: 74-7).

By the 6th central committee plenum in September 1979, more than 1,000 key cadres from different industries and authority levels had learnt Lenin's NEP. And with the acknowledgement of contemporary Prime Minister (PM) Pham Van Dong, who directly supervised the content of the lectures, the 6th plenum had an additional content of reforming the management mechanism, 'untying' and encouraging production.³ This moment marked the beginning of what Vietnamese leaders and specialists often called 'the reform of thinking'

¹ Professor Tran Phuong, PGS Le Duan's assistant, told in an article published on the Magazine of Hanoi Business and Technology, February, 2002.

² The key idea in Lenin's NEP was to accept capitalism in the economy, that is, to accept private economic entities and free markets, during the transitional time to socialism. See more in (Glaza, n.d).

³ This content was prepared and presented at the 6th plenum by PM Pham Van Dong in an additional report which was called 'urgent economic problems.'

(*doi moi tu duy*) (Dang, 2009: 77-80). This resulted in a number of important policies loosening the prohibition of production.

Thanks to the impact of NEP, the central attitude towards ‘fence-breaking’ activities had changed positively.¹ And to cope with the increasing tension in the real economic life in the late 1970s, the state started liberalising economic activities. This is evidenced in a number of important documents issued in the late 1970s and early 1980s to regulate the mechanism of production and distribution in agriculture, industry and commerce. For example, decree 25-CP of January 1981 allowed the state-owned enterprises (SOE) to use the three-plan system in their production process which partly accepted the dealing with free markets (Dang, 2009: 226). Meanwhile, directive 100/CT-TW allowed partial contracts to farmers, thus immediately encouraged and improved agricultural production (see chapter 5). These policies were accompanied by decision 220-CP in May 1981 on the first price reform, which increased the procurement prices of almost all products by tenfold. Together with other partial reforms in domestic and foreign trade during this time, those regulations did significantly ‘untie’ production activities and bring better outcomes to the economy (Dang, 2009: 236-8).

Apparently, when policies were issued as a result of ‘fence-breaking’ activities or in responding to the pressure from below, the process is ‘bottom-up.’ However, it is worth stressing that, there was an increasing struggle in the leadership of Vietnam’s politics at that time between conservative and reformist trends. Soon after loosening controls over production, production activities grew so fast that the state could not monitor them effectively. As a consequence, the period of 1983-1984 saw a trend of reviewing those policies with the intention of restoring state oversight (Dang, 2009: 238-58). But it was this

¹ ‘Fence-breaking’ or ‘pha rao’ was a term used to indicate activities by lower levels, usually the local authorities, which did not conform to the regulations set by the centre, in order to solve the difficulties in the reality of production. See, for example, (Dang, 2009: 126, 138, 176, 183, 196, 206, 210).

time that the reformist thinking emerged more strongly, and started overtly challenging the conservative thinking. National President (NP) Truong Chinh represented this trend.¹

The dichotomy of economic thinking in the political leadership had only been clear when NP Truong Chinh started proposing his opinion on a radical change of the economic system. His first reformist opinion was at the 6th plenum of the Fifth Congress in July 1984. At this meeting, the Political Report was prepared and read by PGS Le Duan, which emphasised 10 economic rules in Vietnam's economy and concerned a radical eradication of market forces (Le, 1984). However, against this report, NP Truong Chinh also had another report that proposed 10 points elaborating the mistakes of the current economic system and the need to understand them correctly and to change them (Truong Chinh, 1984). Truong Chinh's report created an 'amazing feeling' for the people at the meeting, although many of whom still worried about its feasibility (Dang, 2009: 274). Although such reformist ideas did not take effect immediately when PGS Le Duan was still in power, it had transplanted new ways of thinking into the state's personnel, both centrally and locally. More significantly, Truong Chinh was the first to overtly counter the prevailing political thinking, despite the fact that many others might have already thought of a necessary radical change.

Another very important point of time is 1986, the year of the Sixth Congress. Early this year, PGS Le Duan was ill. However, he had almost fully prepared the Political Report for the Sixth Congress which kept continuing the old route of development (Dang, 2009: 296-9). It is noteworthy here that for every congress or plenum, this type of report is always the most important, as it is the basis of the resolution of the meeting that will be used as the guidance

¹ Based on the 1980's Constitution, between 4 July 1981 and 22 September 1992, this position was called as the President of the National Council, and the position of Prime Minister was called the President of the Minister Council.

for all following activities in the coming period.¹ In May 1986 PGS Le Duan was too ill to work, thus Truong Chinh became the Acting PGS, while still being the NP. As the Acting PGS, he started preparing for the Sixth Congress. What was special here is that he excluded all the contents of the Political Report already prepared by Le Duan, and also changed all the drafting people by forming a new group to more accurately reflect his views. He also terminated many high-ranking officials who had mistakes in the 1985 price-money-salary reform, and appointed new people (pp.299-319). His decision on changing the drafting people and the ideas of the Political Report for the Sixth Congress was of historical meaning.

The moment of change

In July, 1986 (only 5 months before the Sixth Congress) PGS Le Duan, the main architect of the SEM, died after nearly 26 years in power as the highest leader. His replacement was NP Truong Chinh, who, thanks to his close observation and investigation of the realities, had changed absolutely from a conservative to a reformist leader since 1979 and had been the author of the partial reforms since then.² As holding both highest positions of PGS and NP, Truong Chinh had enough power to impose his pioneer reformist thinking (Dang, 2009: 297).

The most important change is, as highlighted earlier, that Truong Chinh replaced all of the draft of the Political Report by the ex-PGS Le Duan, with an entirely new one prepared by a new group of specialists and assistants appointed by him. It is important to emphasise that this was a key breakthrough, without which the radical reform would arguably never have occurred, as Truong Chinh's Political Report set out the radical reform (changing the

¹ The contents of the report will be discussed, and normally agreed by the attendants of the meeting, then amended (if necessary), before finally becoming the resolution of the meeting.

² There was an absolute change in Truong Chinh, from a conservative to a reformist thinking of economic matters, which happened at the end of his leading life. He used to be criticised for the error of the land reform of 1953-56, and was also the leader who fiercely opposed to the fence-breaking activities in agricultural production in Vinh Phuc and Hai Phong in 1968. But he changed radically from 1979. See more in (Dang, 2009: 259-68).

economic model), while the old one drafted by Le Duan still followed the same old route (Dang, 2009: 296-9).

In addition, the selection of the leading successor was also decisive to the future of the radical reform.¹ Because of his absolute power at that time, Truong Chinh was the most influential in deciding the key personnel for the next Congress tenure. His trust in Nguyen Van Linh was correct when this successor successfully fulfilled the reform and created important foundations to further it.

Therefore, although the radical reform has been largely known as a historically important decision made at the Sixth Congress, December 1986, not many know about the struggle surrounding it and the hard process of evolution in economic thinking and perception among the top leaders. Like in China, the reform could begin only after Mao Zhedong died and Deng Xiao Ping took over, the change of the top leader in Vietnam was also the key opportunity for the reform to occur (Vu M.K., 2009). However, the announcement of the radical reform in 1986 was just the turning point, how it has been carried out and implemented to achieve development outcomes is another important matter that will be analysed in the next sub-section.

The impact of personalities on policy implementation

During the 4 decades the socialist economic model was in place, the associated networks and structures of political power and economic interests were established and entrenched. It, therefore, made a radical change at the beginning of the reform extremely difficult and challenging for any leader. Voted at the Sixth Congress, PGS Nguyen Van Linh was a

¹ Due to his status of health, he could not carry on holding power for the next tenure, he died in September 1988.

committed leader, who resolutely challenged all reform obstacles and attempted to clear the way to further it.¹

Under the pen-name of N.V.L, of which one meaning was obviously his initials, but his implication was also ‘Say And Do’ (*Noi Va Lam*) or ‘Jump Into Fire’ (*Nhay Vao Lua*), he had a sequence of articles with the title ‘Tasks urgently to be implemented’ (*Nhung viec can lam ngay*) published in *the People’s Newspaper* since 25 May 1987, pointing out urgent tasks frankly against negatives (*chong tieu cu thang than*). He started and encouraged the movement of resisting ‘the frightening silence’ (*su im lang dang so*) (Huu Tho, 2005).² Those examples of some actions that one top leader had to carry out at the time the reform was started also implied that, there was too much to do to change the system that had been engrained for decades.

The inertia of the old system was so large that even the highest leader faced many obstacles. For example, he revealed in an article in *the People’s Newspaper* that, ‘some comrades advised me to stop writing, as there are many other things more necessary to be done, why I am still so enthusiastic about countering negatives’ (Huu Tho, 2005). However, he still kept writing in order to create a movement of radical reform throughout the country. And clearly, at the beginning of the reform such actions were indeed crucial to further the process.

Besides PGS Nguyen Van Linh, PM Vo Van Kiet also had clear contribution to the early transformation.³ He was the leader who concretised the Sixth Congress Resolution and

¹ It is also worth stressing that Truong Chinh remained in power as the National President until June 1987, while Nguyen Van Linh was the PGS, thus, they could together start creating the foundation for the reform.

² ‘The frightening silence’ (*su im lang dang so*) means the fact that senior officers would always keep silent (not answering) when they received claims and complaints by citizens or juniors to which they did not have proper answers or could not answer.

³ In September, 1992, the President of National Council (PNC) was renamed as the NP, and the President of the Minister Council (PMC) was renamed as the PM. The constitution has been amended towards more rights and

deployed the implementation in practice. With a large number of important legal documents, he created the legal frame for implementing and furthering the reform (Dang, 2009: 241-4).¹ He was also considered as the architect of many bold, strategically important reformist projects. Examples abound, from a number of hydroelectric plants throughout the country to the strategic North-South network of 500 Kilovolt electricity transmissions, or the first petrochemical combination in Vietnam which has substituted for more than one third of the total annually imported oil, gasoline and gas, and provided important inputs for other industries. With bold imprints in many important areas, he was, therefore, named as ‘the PM of electricity’ or ‘the PM of roads and bridges’ (Tam Chanh, 2008). In the period when the reform had just been announced, such contribution in practical implementation was very important to the future success.

In general, the radical reform of 1986 in Vietnam was a hard struggle between the reformist thinking and the conservative thinking within each individual leader, and a persistent struggle between the reformist and conservative wings in the political leadership. Although the advantage gradually inclined towards reformist thinking due to the real economic outcomes, the radical reform, arguably, only happened when there was a change in the personnel of the top leader and the successors were committed to the reform.

The most important leader, the “author” of the reform, was Truong Chinh, the NP from 1981 to 1987 and also the PGS from 14 July, 1986 to the Sixth Congress in December 1986. Things would arguably have been different if there had not had that change of the top leader

accountabilities for the PM since 1992. Thus, the PNC (now the NP) used to be more powerful than the PMC (now the PM), but currently the PM is more powerful in managing daily economic life.

¹ Some examples of the important documents initiated by him are Decision 126/CT dated 10/04/1987 on abolishment of all restrictions on the remittance of money and goods to Vietnam by overseas Vietnamese; Decision 80/CT dated 11/03/1987 on the abolishment of all inspection units throughout the domestic transportation network; Decision 217/HDBT dated 14/11/1987 on authorising SOEs to autonomous production, and proposing trial equitisation; or Decree 53-HDBT dated 26/03/1988 on the formation of the two-level banking system in Vietnam.

just before the Congress, or the successor had not been Truong Chinh, even though the period he held “absolute” power lasted for only about five months. His decision on rewriting the political report for the Congress was unprecedented (Dang, 2009: 296-315). More importantly, he pioneered the movement of ‘look at the truth and dare to tell the truth’ (*nhin thang vao su that va dam noi len su that*) which was considered as ‘the key breakthrough of all other breakthroughs’ (p.299). Since then the reformist atmosphere has been predominant over conservativeness among the leader circle. As a result, this was indeed a historically significant change in the economic direction with Truong Chinh’s clear personal imprints.

Successfully continuing Truong Chinh’s radical reform was PGS Nguyen Van Linh (1986-1991), who has even been better-known for the reform than the reform’s “author.”¹ This is because, during his leadership tenure, he actually contributed mainly to the massive changes needed for the reform implementation at the first step. Apart from him, it is necessary to mention PM Vo Van Kiet, who was given impressive nicknames attaching to his bold contribution to the implementation of the reform in its initial phase.

On the whole, it was the very difficult situation of Vietnam around the reform of 1986 that facilitated the emergence of political elites resolutely committed to the reform and long-term development of the country. Although the moment of change is crucial as it allowed the reformist leadership to take power and replace the conservative wing, it is important to note that it is the political culture of Vietnam, in which the outgoing leader plays a substantial, if not decisive, role in deciding the successor, is also crucial to the future of the reform, as it

¹ As far as Nguyen Van Linh’s role in the reform process, some foreign writers, because of not understanding clearly many events in the history of Vietnam, have mistaken that Nguyen Van Linh was the ‘farther’ of the reform process of Vietnam (Dang, 2009: 322-3).

guarantees the continuity of policy pursued by the state.¹ In addition, another crucial factor deciding the continuity of policy is the continuity of the political regime in Vietnam (due to the gradualist approach to reform that it adopted - changing the economic model without changing the political regime) in which the CPV has remained the only leading political party of the country throughout the period before and after the reform. The following section analyses the structure and operational mechanism of this regime to see how coherent and autonomous it is.

3.4. The Socio-political System

Since the country's independence, the Communist Party has been the only legitimate political party in the DRV until 1975 and in the unified country since then.² As the unique leading political party, the role of the CPV has been decisive in the organisational structure of the state apparatus in general, and in directing the course of development in particular. This is stated clearly in the CPV Charter that the CPV is the party which 'holds power' and 'leads the political system' (CPV, 2001a; 2011a). The parallel existence of the party and the state make the organisational nature of the state of Vietnam a dual party-state structure (article 10). However, these two systems, although technically separate, are interposed with reciprocal relations and movements between the two (Dang and Beresford, 1998: 49-52). To understand

¹ We should also note one exception here, that is, the change of the top leader right before the Sixth Congress in 1986 that we already highlighted in this section. The successor at that time was the representative of the reformist wing in the party, so did not follow the old route of development maintained by the conservative wing.

² The Communist Party of Vietnam is the current name of the legally unique political party of Vietnam. This has been constitutionalised since the foundation of the DRV and remained so in the unified country of the Socialist Republic of Vietnam since 1975 (although between 1945 and 1951 it dissolved, in fact still operated secretly, in order to create the national solidarity and mobilise the social forces for the first Indochina War). However, the name of the party has been changed for several times.

the Vietnamese socio-political milieu, this section briefs the overview of the party, the state, the society, their interactions and the decision-making process in Vietnam.

The party system

Over 8 decades since its foundation, the membership of the CPV has increased continuously, with about 3.6 million members in 2011. The Party has its branches from central to local levels of the political system, and covers all of the most important positions in the state apparatus (CPV, 2001a; 2011a; Tran and Ngo, 2008: 29). The CPV and its membership are regulated by the CPV Charter, with democratic centralism as the general principle (article 9).

In principle, the highest decision making of a party unit at each level is its Congresses (CPV, 2001a; 2011a: chapter 2). Between Congresses, an Executive Committee (*Ban chap hanh*) which is voted at each Congress acts on behalf of the whole party unit. At levels from districts up to the centre, there are a standing organ (*Ban thuong vu*) and a permanent organ (*Thuong truc*) acting on a regular basis to solve important tasks of the party. However, in reality, the exercise of power seems to have a reverse direction when membership of the permanent organ is always most powerful.

The Party Congress in the national scale follows a bottom-up procedure (CPV, 2001a; 2011a: chapter 4). At the time of the Congress (usually every five years), firstly, all party units at the lower level organise Congresses. Besides voting for key organs and positions, such as the Executive Committee, the Standing Committee, the Permanent Committee and the secretary and vice secretaries, these Congresses also vote for the delegates to attend the higher-level Congress (article 18, 21). The voted delegates are always the highest members of the newly-voted key organs, who then represent those party units to attend the higher-level

Congress. Therefore, the attendants of a National Party Congress are the highest leaders from party units of provinces, cities, ministries, ministry-level organs and central organs.

The highest organ of the Party is the Politburo (*Bo Chinh tri*) consisting of about 15 most powerful members in the political system.¹ Members of the Politburo always hold the positions of PGS, NP, PM, President of National Assembly (PNA), the Standing Member of the Central Secretariat, the head of the Central Party Organisation Committee, the head of the Central Party Examining Committee, the Standing Vice PM, the Minister of Defence, Minister of Police, the Secretaries of Hanoi and Ho Chi Minh cities.² Other members are often, but not always, other vice PMs, the head of the Central Propaganda Committee or the Minister of Foreign Affairs. The Politburo is the most powerful and permanent part of the Party's Central Executive Committee (CEC). The CEC membership is often about 170, comprising key personnel in the state apparatus.³ Besides the Politburo members, they are mainly leaders of ministries, ministry-level organs and party committees, secretaries of provinces and centrally-run cities. Except for Hanoi and Ho Chi Minh cities with two representatives each, each of the other 61 provinces and cities has only one representative as the CEC member, who is always the secretary, the highest, of the local authority.⁴ The members of the CEC are voted at the National Party Congress. In turn, the CEC votes for the Politburo, then votes for the PGS from the Politburo members; the Central Examining Committee and its head; and the Central Secretariat which consists of the PGS and some

¹ The membership of Politburo may vary over each party Congress. For example, the number of Politburo members of the Sixth Congress was 13, of the Seventh was 17, of the Eighth was 19, of the Ninth and Tenth was 15, respectively. The number of members is decided by the CEC.

² Since the country's reunification, the secretaries of Hanoi and Ho Chi Minh Cities have always been Politburo members, before that these positions were members of the Central Executive Committee.

³ The membership of the Central Committee also varies, depending on each Congress. For example, the number of the Eleventh Congress is 175, of the Tenth was 160, of the Ninth was 150, of the Eighth was 170, etc.

⁴ As Hanoi and Ho Chi Minh cities' secretaries are Politburo members, their chairmen are members of the CEC.

Politburo and CEC members (CPV, 2011a: article 17). The Central Secretariat is the standing organ of the CEC.

At the provincial level, the same logic is applied to form the party structure of a province or city. The Executive Committee of a provincial Party is voted by its Congress, this Committee is similar to the CEC. The Standing Committee (similar to the Central Secretariat) of the provincial Executive Committee consists of from 11 to 19 highest leaders of the province or city.¹ And the Permanent Committee consists of the secretary and vice secretaries of the provincial party. This last Committee is the highest leadership of the locality, like the Politburo in the centre.

Concerning the organisational structure, at the central level, the party has a number of functional committees of which the Central Party Organisation Committee is the most important, as it is responsible for arranging key personnel for the whole apparatus of the party and state, from central to provincial levels. It prepares and makes such key personnel decisions as for the National Assembly (NA), Government, Party's organs, CEC, provincial secretaries and chairmen, and even the Politburo (Dang and Beresford, 1998: 43). As a result, the head of this committee is always one powerful Politburo member. At the provincial level, the logic is similar. The Party Organisation Departments play the same role in deciding and arranging all key personnel for the apparatus of provinces or cities, and the lower level.

The state branch

Vietnam's political system is a party-state system (CPV, 2001a; 2011a: article 10). Therefore, when mentioning the state system as separately from the party system (hereinafter referred to as the state branch to distinguish with the state as a whole), the state branch comprises two

¹ The number of this committee may vary depending on each province or city and each Congress.

basic components, namely, the legislature, including the NA and all local People's Councils, and the government, including the central government, ministries and ministry-level organs, and all local People's Committees (Dang and Beresford, 1998: 46).¹ The important point to note is that all key personnel of the state branch are also key party members and arranged by the party.

The process of arranging key personnel for the state is implemented via two rounds. The first is the arrangement of key personnel for party positions, which is done at Party Congresses. The second is the arrangement of those key party personnel into the state branch through voting and approving at the NA or provincial People's Councils. This is to guarantee that all important positions in the state branch are held by key party members.

Therefore, a National Party Congress is always prior to a new NA. Normally, all the key members voted at the Party Congress will become Deputies of the coming NA. Thus, at the first plenary meeting of the new NA, the meeting will vote for the President of the new NA who will then chair the NA to vote for the NP (NA, 2001a: article 65). The NP then appoints the vice NP, the PM, the Chief Judge of the Supreme People's Court, the Head of the Supreme People's Procuracy, who will then be voted by the NA (article 2). The PM then appoints vice PM, ministers and other key leaders of the governmental organs, who will be then approved by the NA (article 2). Although all key positions of the state branch have to be voted or approved by the NA, those personnel are arranged and introduced by the party, and usually only one candidate is introduced for one position, so normally the NA will vote for or approve the appointees. One more important point is the three nominated candidates for PNA, NP and PM are all members of the new Politburo. Additionally, although the NP appoints the PM, in

¹ At the local levels in Vietnam, there are centrally-run cities, equivalent to provinces; provincial level cities and towns, equivalent to districts; wards (in urban areas), equivalent to communes.

actuality, the 1992 Constitution has given more real power to the PM (see NA, 1992c: chapters VII, VIII).

Power and the state in Vietnam

Vietnam has attempted to build the ‘socialist law-governed state’ which is similar to the ‘Western’ rule of law in the sense of respecting the supremacy of the law, but with the leading role of the party (Le, 2007; Nguyen N.D., 2007; CPV, 1996). In principle, a law is prepared and drafted by the government, then proposed to the NA, the organ of highest state power, and is then reviewed and amended by the deputies of the NA, before being voted at the NA plenary meeting for approval (NA, 1992b; 2001a; 2001b; 2007a). When a law comes into effect, it will be applied evenly to all individuals and institutions.¹

The supremacy of party documents

However, as of “the party leads” feature (CVP, 2001a; 2011a), in Vietnam there has existed one type of legal document that always has highest implementation quality, the resolution of the party congress (Dang and Beresford, 1998: 47, Thu Ha, 2010). In addition, as highlighted earlier, between congresses the CEC, the Central Secretariat and the Politburo act on behalf of the whole party, these representative organs are responsible for deciding the most important politico-economic matters and also formalise their decisions under a form of party documents. All of these party documents, in any form of congress or CEC resolutions; the Secretariat’s directives; or the Politburo’s decisions or opinions always have the highest directing value in the politico-economic process. Thus, in Vietnam’s dual (party-state) structure, all directions

¹ This is the target of the attempt to build the ‘socialist law-governed state’ in Vietnam; in reality Nguyen (2007) also pointed out the fact that in many cases, the CPV’s decisions are higher than the law. The seniority of the party resolution is also clearly illustrated in resolution 21-NQ/TW (CPV, 2008) stating that ‘... the CPV’s reform directions have been institutionalised into the Constitutions, the law system, creating the legal framework for the socialist-oriented market economy to emerge and develop...’

always originate firstly from the party leadership, whose documents have the force of law (Dang and Beresford, 1998: 46).

Naturally, the party leadership must consider the existing legal framework when deciding a matter, but in actuality it also has the power of forcing changes to the legal framework. For instance, at the Sixth Congress of 1986 private economic sectors were accepted for the first time, when ‘an economy of multiple sectors is admitted as one feature of Vietnam’s economy in the transitional period’ (CPV, 1986a: 737-8).¹ Then, based on this direction, the Congress also demanded that ‘it is necessary to amend, complement and widely promulgate this consistent policy towards the economic sectors. The general directions must be transformed into laws to make people feel safe and willing to invest’ (CPV, 1986a: 742-3). Therefore, the enactment of the 1990 laws on companies and on private enterprises and the 1994 law on the encouragement of domestic investments (will be seen in chapter 6) was actually the result of this resolution and other related resolutions of the subsequent CEC plenums of the Sixth Congress (from 1986-1990).

Thus, in Vietnam the development directions pointed out in each party resolution are always of the highest order of importance, which always have the value and function of pioneering and breakthrough, and are the “lodestar” for all following actions of the state (both the Government and the NA) and its central and local organs (CPV, 2001a, 2011a). Based on the party directions, either the NA will develop or amend one law or a number of laws regulating the related areas, or the government will issue decrees or decisions instructing the development of those areas (NA, 2001a: article 2).² The government also issues decrees to guide the implementation of a law when necessary (NA: 2001b). To further guide the

¹ These economic entities are state-owned, collective, private capitalist, state capitalist, small producers of goods.

² The enactment of a new law or the amendment of an existing law is not necessarily only carried out according to the party resolution, as the party resolution does not always cover all aspects of the economic life, it only covers the most important areas. As a result, the process of law making and amending is still implemented by the government and the NA in areas that the party resolution does not emphasise.

implementation of the government decrees or decisions, line ministries will issue circulars or decisions elaborating the terms and conditions applied to the related government decrees or decisions (NA, 2001b: article 24). On the whole, the supremacy of the party documents is vividly illustrated in the fact that they have been the rationale for the subsequent changes or adjustments of the legal system which even includes the constitution (see CPV, 2008).

The formation of development strategies

As far as the overall socio-economic strategy is concerned, the government takes responsibility for building long-term strategies; five-year and annual plans in line with the guiding principles pointed out in the party documents of the same tenure (NA, 2001b: article 9). Those strategies and plans are then proposed to the NA for approval, the government (and its agencies) is afterwards in charge of the implementation in practice.

Regarding the development strategy of each industry, its first guiding principle is always the direction of the central party in each period which decides the order of importance of industries and the state's priority for the industries at each time (illustrated more in chapter 6). In principle, these strategies are always built by the line ministries and then proposed to the government for approval (NA, 2001b: article 23). Except for some cases in which the PM authorised the line minister to approve the development strategy of his (her) industry, most development strategies of industries have been approved by the PM. Based on the approved (long-term) development strategy, the line ministry continues to build the annual and five-year development plans or master plan for that industry (NA, 2001b: chapter 4). And as will be seen in chapter 4, the state has deliberately planned to reorganise the majority of SOEs in one industry into one or a number of centrally-controlled large SOEs. Therefore, each

important industry has always been represented by such SOEs which have always been the tangible tools for the state to implement the strategy of that industry in practice.

Thus, the process for developing an industrial development strategy has been essentially top-down. The importance of an industry must, first, have been realised and included in the party documents. Although, in perceiving and realising the importance of each industry, the top leaders might have to rely on the consultancy and assistance of the lower levels, their opinion is decisive to the future of an industry. Only after having been supported by the top leaders, would the industry have its rationale to build the development strategy to submit to the government for approval (see details in chapter 6).

Government versus National Assembly

In the state branch, the NA, in principle, is the highest organ of power and the government is the NA's executive organ, and is the highest organ of state administration (NA, 2001a; b). But in actuality, the "real" power always rests on the government. Firstly, as the highest administration the government is responsible for daily operations and its signatures have the force of implementation. Secondly, only important issues are to be submitted to the NA, while the government remains its rights of drafting and manipulating the NA to approve (NA, 2001b: chapter 2). Thus, although the propensity has recently inclined towards more real power for the NA, the government has remained the overarching organ in charge of the country's economy.

In addition, the very organisational structure of the party-state system has given the government real state power. As all highest leaders of the state are Politburo members, of whom the four most important are the PGS, NP, PNA and the PM. These four top positions actually cover almost all decision-making process at the top level of the political system. Any

important issue will firstly be proposed to the Politburo, once the Politburo has approved it has the force of law.¹ Even important issues, which need approving by the NA, will be proposed by the government, and the PNA will chair the NA to look into the issues. Thus, the NA and the government are indeed the two hands of the same body, the CPV.

Another important tool of the government is the rights of manipulating and convincing NA deputies. As NA deputies are mainly semi-specialised, meaning that simultaneously they are also senior officials of central organs or local governments, thus respecting the centre, especially the central government, is their commonality (Khiet Hung, 2006). More importantly, when such professional associations as journalists' or scientists' associations are still tightly controlled by the state agencies, criticisms on state policies are actually rare and largely ignored (see the next section). Thus, by far only one project has been disapproved by the NA, that was the North-South Express Railway, but it will still be looked into in subsequent NA meetings. Even such initially hot-debated projects as the Bauxite Project or Dung Quat Oil Refinery were finally passed.

Vietnamese state versus civil society

Defined as 'the arena of uncoerced collective action around shared interests, purposes and values' (LSE and PS, 2004),² or 'the web of all privately-organised interests and groups' (Rueschemeyer et al., 1992: 6; Leftwich, 1995: 412) the civil society comprises such groups as self-help, community, advocacy or such organisations as non-governmental, women's,

¹ After the Politburo has decided some issue this will be formalised under the form of either a resolution of the Politburo (e.g. the Politburo's resolution 32-NQ/TW dated 5 August, 2003 on the construction and development of Haiphong city in the period of industrialisation and modernisation) or a directive (e.g. directive 03-CT/TW on continuing the implementation of the resolution of the 6th plenum (second time) of the 8th Congress) or a conclusion of the Politburo (e.g. the Politburo's conclusion 45-KL/TW dated 10 April, 2009 on experimenting with the model of business groups). Regardless of the form of the Politburo's opinion, it is always the most important and always the rationale for further steps of concretisation and implementation.

² Online available at: http://www.lse.ac.uk/collections/CCS/what_is_civil_society.htm. Accessed: 1 June, 2009.

faith-based or business, professional associations, trades unions. However, in Vietnam the state has not issued any official document to define civil society, although it has had a number of legal documents regulating the operation and foundation of associations (Nguyen M.C., 2009). For example, all Constitutions of Vietnam admit the citizen's rights of freedom of speech, the press, communicating, meeting, forming groups and of demonstrating according to the law. The resolutions of the Sixth and Ninth Congresses also reaffirm the importance of civil associations and the encouragement of their foundation (CPV, 1986b; 2001b). Additionally, some legal documents, such as decrees 148/2007/NĐ-CP and 88/2003/NĐ-CP (Vietnam Government, 2003a; 2007a), or circular 09/2008/TT-BNV (MIA, 2008), currently regulate associations generally or some particular types of voluntary groups.

But in reality, the foundation of associations has been rather difficult, due to the existence of other legal documents preventing associations from supplying public services and social criticism, and the application procedure being indeed complicated and requiring permits from many state organs (Nguyen M.C., 2009; Van Tien, 2006). More importantly, the Law on Associations has not been proposed to the NA yet, although it has been drafted tens of times and discussed widely since 2006. Thus, the legal frame, which lacks an overall law, has created peculiar characteristics for the civil society of Vietnam (CSV), that is, the existence of few self-founded groups but a large number of state-related, or politically-influenced, associations (Khiet Hung, 2006).

The largest organisation in terms of membership and participation is the Vietnam Fatherland Front (VFF) (Khiet Hung, 2006). It is an umbrella organisation which currently consists of 44 organisational members. Most importantly, the CPV is one and the leading member of the VFF (CPV, 2011: article 41). The VFF's members include all major mass organisations, such as the Youth Union, the Women's Union, the General Confederation of

Labour, the Peasants' Association, and almost all large professional and religious associations (Thayer, 2008). These members (except for the CPV) are largely civil society actors according to the above definitions, although their operations are largely controlled by the state. The VFF's four main operating principles seemingly conform to the requirements of a civil society.¹ However, as the CPV is the VFF's leading member, so although other members are relatively free from the state, they are manipulated and indeed controlled by the VFF and thus by the CPV or the state in general (Ho, 2009).

Arguably, the control of the CSV under one umbrella organisation as the VFF has been systematically and intentionally organised by the Vietnamese state. This was partly a historical heritage, as nearly all major members of the CSV have been formed since the revolution time by the state. In addition, they have been supported significantly by the state in terms of both finance and political opportunities (Khiet Hung, 2006). Thus, they tend to support the state's decisions rather than oppose to. Moreover, that the membership of the VFF has increased continuously over time implies the CPV's intention of containing more and more quasi civil society components.² More clearly, by postponing the issuance of the Law on Associations, the state has shown hesitation in encouraging the foundation of new voluntary associations. Even after being redrafted 10 times, the law draft still contained a complicated and tough procedure for forming associations (Van Tien, 2006). This altogether reflects the finding that 'the [Vietnamese] Government is keen to set out roles and responsibilities for the

¹ They are democratic negotiation; equal cooperation; sincere solidarity and reciprocal respect; and coordinative and uniform action. See more in the Website of the VFF at:

<http://www.mattran.org.vn/Home/GioithieuMT/gtc2.htm>. Accessed: April, 2010.

² For example, the time Thayer (2008) studied the VFF it had 29 members, now (2011) besides the 29 old members, it has 15 new ones, making the total of 44 members.

new forms of associational life that emerge' (Sanharwal and Than, 2005), and has created the 'dualistic' nature for the CSV (Ho, 2009).¹

In general, as the VFF covers almost all large and important social forces in the society, the existence of other groups and associations seem negligible. This main feature of the CSV makes it really weak and subordinated to the state. Its contribution to the development of the society is very limited. For example, the fact that its contribution to the process of state budget estimation was marked as low as 0.1 point, or its impact on the government's explanation was marked only 0.6, strongly suggests that the CSV has had little influence on the state (Khiet Hung, 2006).² In other words, the Vietnamese state is relatively autonomous in relation to its civil society.

On the whole, given the party-state structure of Vietnam, the CPV has remained the most influential in the political system and has imposed its leadership on all decision-making process of the country. It is this organisational structure, wherein all key state positions are held by key party members, that has enabled the CPV to deeply embed itself in the party-state system and, thus, create a significantly coherent state apparatus (as a whole) under the uniform leadership of the CPV. In addition, the fact that, besides the five top leaders of the CPV (the PGS, NP, PM, PNA and the head of the Central Party Organisation Committee), two armed force ministers, the Minister of Defence and Minister of Police, have invariably been Politburo members, has practically supported the concentration of state power in Vietnam, especially in terms of controlling the armed forces. Moreover, it is also the way of organising the societal forces that has made the CPV, and the Vietnamese state in general,

¹ The CSV is considered "dualistic" because its main actors have actually been formed by the state, while formally those main actors are also voluntary associations of different social forces. See more in (Ho, 2009).

² This was the result of the survey on Vietnam's civil society, carried out by a research group of the Vietnam Institute of Development Studies (VIDS).

greatly embedded in the Vietnamese society. More importantly, the CPV and its state have been able to penetrate into the social forces, to obtain their support and insert the party's and the state's control and direction over them as well. This actually reflects the kind of coherence and embeddedness conceptualised by Evans (1995).

Regarding the decision-making process, all kinds of party documents are the most important bases for subsequent policy processes, even including the constitutions. This top-down policy process is clearly manifested in a summary of one resolution of the CPV (2008) stating that 'starting firstly from the directions of the CPV then being formalised under the constitutions, the legal systems and other documents and policies by the state and its functional agencies.' More specifically, the top-down policy process in Vietnam proceeds from the CPV documents to the law systems by the NA; the decree and decision systems by the government; the circular and decision systems by ministries; and to development plans at grassroots levels. In addition, the overarching influence of the CPV has made the NA and the government actually the two hands of the CPV, with real state power resting on the government, while the NA only has formal power. More importantly, the leading influence of the CPV over the VFF - the umbrella organisation of almost all CSV entities - has made the CSV dualistic and subordinated to the Vietnamese state. This has granted the Vietnamese state a rather high degree of autonomy. In short, the party-state structure and the distinctive way of organising the civil society has indeed provided the Vietnamese state with a kind of 'embedded autonomy' that Evans (1995) emphasise as a key general feature of a DS.

Conclusion about the preconditions for the emergence of a DS in Vietnam

Through our analyses carried out in the first four sections, and using a comparison with the four preconditions highlighted in chapter 2, it is clear that Vietnam in the 1980s had all of the

preconditions necessary for the emergence of a developmental state. Fundamentally, the long history of domination under the Chinese feudalism has made Vietnam a typical society of Sino-centric traditions with a well-disciplined and hierarchically-ordered society, where the people are loyal to the state and thus far have expected to have little individual democratic life. In addition, the series of wars and, more crucially, their victories have consolidated the legitimate position of the CPV and its state, allowing them to centralise and strengthen their power over time. Moreover, the very organisational structure of the Vietnamese state has also provided it with significant coherence, embeddedness and autonomy. As a result, these accumulative special properties of the Vietnamese state indeed enabled and facilitated a convergence of conditions favourable for the emergence of a DS, when Vietnam was facing severe threats in the late 1970s and throughout the 1980s. These threats came from both external enemies and the extremely fragile internal economic situation which was verging on collapse and resulting in tangible social chaos and (looming) political instability.

This threatening situation and the consequent emergence of reformist thinking initiated by a number of political elites resolutely committed to the long-term and independent development of the country actually led to the introduction of the 1986 reform. In parallel with the reform many pragmatic and developmentally-driven rules governing the economy and polity were agreed upon, in order to firstly rescue them from sinking and secondly develop and transform them. In addition, supporting and facilitating this reform was the concentration of power that the CPV and the Vietnamese state had achieved throughout about half a century of their successful leadership. Another contributor to this reform was the continuity of policy. This has been obtained thanks to both the very gradualist approach to reform, whereby the CPV attempted to maintain its unique leading role, and the political traditions of Vietnam in which the outgoing leader substantially influences the choice of the

successor. Furthermore, the coherence, embeddedness and autonomy of the CPV and the state have allowed Vietnam to agree on a consensual set of reforming rules, then apply and implement them with little opposition both from within the party and the state as well as from the society.

In sum, the conjuncture of the necessary preconditions for the emergence of the DS in Vietnam around the reform of 1986 was already available, except only for the unfavourable international context which, as argued in this thesis, is not indispensable.¹ However, to assess whether the Vietnamese state which emerged from such preconditions is developmental or not, it is still necessary to analyse its elements and features in the light of the DS ideal-typical model.

3.5. Assessing the Vietnamese State's Elements and Features

To thoroughly understand a state, one cannot just see it as a monolith. Because a state is always complicated, with many functionally interrelated constituent components which keep changing over time and vary from one state to another. Further complicating analysis is the fact that different perspectives pay attention to different components.

As outlined in chapter 2, the DS perspective ultimately focuses on the role that a state plays in leading a country's development. The ideal-typical DS model also shows that to lead the course successfully requires a state to have some features and components contributing to its developmental capacity and effectiveness. To value the role of the Vietnamese state in the country's development, this section analyses its components through the lenses of

¹ This unfavourable international context was due to the collapse of the Soviet Union resulting in the loss of aid from it, and the tense relations between Vietnam and the West (but this tension was later significantly improved when Vietnam withdrew its troops from Cambodia and opened its economy).

developmentalism. For the sake of analytical convenience, a division of convergent and divergent features will be used.

Developmental proximity

Among the special features that an archetypal DS possesses, Vietnam has had a number of those during the course of its transformation, notably from the reform in 1986. Although not identical with those of an archetypal DS, the following characteristics of the Vietnamese state show a convergence towards the DS rather than other state types.

A number of committed leaders

As analysed earlier in the third section, Vietnam's reform was attached to the name of a number of important figures, without whom, arguably, the reform would have hardly occurred or might have diverted towards another direction. If the pioneering of the reform was attributed to ex-NP Truong Chinh, who had an unprecedented action of changing the whole direction of the country by replacing the Political Report of the Sixth Party Congress, the successful implementation of the reform in the initial time was awarded to ex-PGS Nguyen Van Linh and ex-PM Vo Van Kiet, with decisive breakthroughs in both economic thinking and practical deployments. Naturally, it is difficult to compare those figures to such famous leaders as Park Chung Hee or Lee Kuan Yew, due to the much shorter periods that these Vietnamese leaders have actually spent in power. Nevertheless, their contribution to Vietnam's transformation was undoubtedly pivotal. This has facilitated the subsequent leaders in achieving more development successes.

Any discussion of Vietnam's political leaders cannot neglect the founding, much revered leader of the country, Ho Chi Minh, whom the Vietnamese people still respectfully

call ‘Uncle Ho.’ Although his period as leader was mainly concerned with the revolution and independence struggles, and less with economic development, Ho Chi Minh’s economic opinions were surprisingly eclectic. This was illustrated in the acceptance and encouragement of free markets and all economic entities, including private and capitalist, before the socialist camp’s influence increased on the DRV (see section 2). More importantly, his ideology of “taking the people as the basis” (*lay dan lam goc*) has remained the most valuable for successive leaders. Vietnam’s history has shown that whenever this principle was violated, serious problems would arise to either the citizens or the political system (TuanVietnam, 10/10/2010). The mirror of Ho Chi Minh’s morale has been widely encouraged and learned by Vietnam’s officials and citizens.

Consensus and coherence in the leadership

Although personal influence was important, it is not sufficient to value Vietnam’s elite leadership just by judging the influence of only one or some figures. Because the main principle of the CPV is ‘democratic centralism,’ in principle no single person can decide an important issue (CPV, 2001a; 2011a: article 9). The PGS is the most powerful leader and often raises and then concludes one issue, he is, therefore, able to impose influence on that issue. But contested issues are to be discussed among the Politburo and the final decision will be made according to the majority. For instance, even such a prestigious leader as Ho Chi Minh, who had not agreed on the action of the land reform in 1953, finally had to obey the opinion of the Politburo’s majority (Dang, 2009). Thus, decisions are generally made based on the consensus of the leadership.

More importantly, as the wars have left deep imprints on the Vietnamese political system and the political leaders themselves, and as the country’s elite leaders have still mainly

belonged to the generation that fought at least one war, they have shared experiences that bind them together. This feature is arguably the most important in maintaining the solidarity and coherence of the elite group in Vietnam. Furthermore, it is compulsory for all high-ranking officials in Vietnam to have graduated from Ho Chi Minh National Academy of Politics and Public Administration with at least either high degree or bachelor certificate in politics (VOVNews, 2006). This rule is applied to all key and potential officials from central to district levels. At this academy, they are equipped with the same ideological bases, such as Marxism, Leninism and Ho Chi Minh Ideology. Therefore, this is indeed the crucial generality among high-ranking officials of the state, which is comparable to such informal networks as alumni that Evans (1995) stressed in Japan, South Korea or Taiwan. As a result, this factor has enhanced the cohesiveness of the Vietnamese state, at least at the top level, and, as argued by Evans (1995), provided a decisive condition for the building of embedded autonomy of the state.

An organised civil society

Another feature of the DS archetype that Vietnam has possessed is the capacity for managing social forces. Indeed, as highlighted in section 4, the Vietnamese state has had a distinctive way of organising and controlling the CSV, and formed an enlarging network to facilitate the societal consensus on the policy that the state pursues. Consequently, the majority of the civil organisations have been formed deliberately by the state under ostensibly voluntary principles. Additionally, the continuing delay in issuing the Law on Associations reflects the desire to discourage ‘western-style’ civil society. But this also vividly illustrates a creative way that the Vietnamese state manages and manipulates the masses to support the state’s programs.

In addition, although ‘freedom of the press’ is one constitutional right, in actuality, the state has controlled the press rather tightly. The Press Law stipulates that ‘the Government shall exercise the unified state management over the press’ (NA, 1999a: article 17a). The law also requires a press agency (either domestic or foreign) to get a permit, uniformly granted by the Ministry of Information and Communications (MIC), for operating in any area. In terms of press management, the Government authorises the MIC to control the press centrally, and local authorities to control the press locally. Thus, the state organs can maintain very close connection with the press. For example, regularly there are meetings chaired by the head of the Department of Information and Communications, attended by the head of the Propaganda Department, the chief and vice chief editors and important journalists of all presses and media in the area, to review and value the previous work and set out the directions for the coming tasks. This ensures the press to rightly implement its main task as ‘to defend the Party’s lines, directions and policies and the State’s laws; to discover and defend positive factors; to prevent and combat erroneous ideas and acts’ (NA, 1999a: article 15-2b).

As a result, the Vietnamese state has been able to use the civil society, notably the press, which originally should be its competitors, to support its development directions and activities. And this also brings to two other important features, that is, the high degree of legitimacy and the relative autonomy from the society that the Vietnamese state has acquired.

The state’s legitimacy

The techniques used to manipulate and organise the masses, especially the sophisticated use of the press for the purpose of propagation rather than criticism, have enabled the Vietnamese state to possess a significant degree of legitimacy from the country’s citizens. More importantly, Vietnam’s fast economic growth and rapid poverty reduction over the past

twenty years, together with keeping inequality low, have significantly improved the living conditions of the majority of the Vietnamese people.¹ As a result, an enlarging proportion of citizens have been able to escape from poverty, which has resulted in increasing support from the benefited people for the state (Leftwich, 1995, 2000). Therefore, the Vietnamese state has achieved more legitimacy thanks to its recent development successes.

In reality, the result of a recent research based on a massive poll conducted by BVA-Gallup (surveying the citizens' attitude toward the prospects of their country's economy in 2011) shows that 'Vietnam's people are the world's most optimistic' (TuoiTreNews, 2011; Ha Khoa, 2011).² Although the Vietnamese people have been facing many difficulties in their daily life, such as the currently high inflation or price increases, this research result suggests that the citizen has a strong belief in the future of the economy of which the state is an important factor.

The state's autonomy and embeddedness

Naturally, the state's capacity to manage the masses is crucial to the achievement of its autonomy. If the state can transform these social forces into supporters, it has not only reduced the danger of potential opponents from these forces, but also obtained significant tolerance and support from them, especially when they also needed patronage from the state. In addition, the control of the press in line with the state's preferred views and ideological position has also contributed largely to the reduction of potential opposition from civil

¹ This is the assessment of the World Bank. Online available at: <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/VIETNAMEXTN/0,,menuPK:387575~pagePK:141132~piPK:141107~theSitePK:387565,00.html>. Accessed: May 2011.

² This research was based on a massive poll conducted by BVA-Gallup from 11 October to 13 December 2010 with 64.203 attendants in 53 countries in 5 continents, who were asked about the prospects of their country's economy in 2011, it was published on the French newspaper *Le Parisien*, *Le Figaro*, reproduced in the *Dantri*, 4 January 2011 and the *TuoiTrenews*, 4 January 2011.

society. The alternative would have been a poor human rights record, as repeatedly reported by the US government (BDHRL, 2009; 2010; 2011).

However, the autonomy of the state is also decided by the decision-making process within the state. As seen earlier, the Vietnamese state's component responsible for state administration is the government which has been relatively autonomous from the NA in making decision. Additionally, since 1992 the new Constitution took effect and has granted more power to the government and the PM (Dang and Beresford, 1998: 95). Although this status has been somehow affected, when the democratic environment in the NA has gradually increased (Le, 2010b), the government has still remained powerful, as the number of projects disapproved by the NA has remained negligible (Hong Khanh, 2010).

Moreover, the nature of the relationship between the state and business also significantly influences the state's autonomy. In terms of economic development, this aspect of autonomy is even more important. As will be seen shortly and in chapter 4, the Vietnamese central state has intentionally created a force of large SOEs under its direct control, as a tool to implement important development projects and stabilise the economy. In addition, the state-business relationship has been very close, whereby those SOEs have received substantial support from the state, and have undertaken strategic development tasks in return (see chapter 4). Thanks to the magnitude of the centralised SOEs, controlling them has enabled the state to impose substantial influence over the whole business forces and, thus, to actively manage both state and private interests. Theoretically, given the intimate state-business relations and the embeddedness of CPV in the state and that of the state in the society analysed earlier, the autonomy of the Vietnamese state is actually the sort of 'embedded autonomy' as conceptualised by Evans (1995).

SOEs and their intimate links to the state

Because Vietnam has still adopted Marxist-Leninism and Ho Chi Minh Ideology (which emphasises the dominant role of the state sector) as the main political basis, the Vietnamese state has never stopped stressing the decisive role of the state sector, despite the SOE “equitisation” (CPV, 1987; 1991a; 1994; 1997; 2001d).¹ Therefore, although the SOE reform has “equitised” many SOEs, this process has indeed been a purge of SOEs rather than a process of massive privatisation (see chapter 4). As a result, there are currently over 100 centrally-controlled SOEs with very large scale and covering almost all important areas of the economy.² Altogether they have contributed a share of above 40% to the country’s annual GDP (Luu Van, 2010). More importantly, with very close relations to the state they have been granted many privileges, and considered the “spine” of the economy, the “iron fists” for the state to stabilise the macro-economy and implement strategic development programs (CPV, 1997).

Undeniably, there are questions to be asked about the efficiency of Vietnam’s SOEs.³ Importantly, however, it is argued that Vietnam has followed the same path as the East Asian successful developmental states, when the state has mainly relied on large-scale enterprises as its tools of development and management. Vietnam is, therefore, truly ‘a paradise for big industrialists’ as Woo-Cummings (1999: 17) concludes for the nature of the business in the developmental state. Together with the state’s active control of finance (as seen hereunder) and the tactical use of legal framework (as seen in chapter 6), the state control of a large force

¹ “Equitised” or “equitisation” has been used by the Vietnamese state in place of “privatised” or “privatisation” to avoid the sensitive meaning of privatisation as opposed to public ownership (Moens, 2002: 43). See more of this in chapter 4.

² “Very large scale” here just means in comparison with other companies in Vietnam.

³ For example, the lack or limit of managerial ability of the people in charge, the insufficient legal framework, the lack of transparency, the matter of corruption and the division of interest groups, etc. have all contributed to the low competitiveness of this force, especially compared to international firms. See more in (Nguyen, 2006).

of central strategic SOEs has enabled the Vietnamese state to manage the private interests actively and effectively.

Relatively active in financial management

As will be seen in chapter 4, the Vietnamese state has been able to mobilise and channel finance into its strategic projects through the state budget and bank loans. In order to keep control of financial management and mobilisation, it has strengthened its state-owned commercial banks (SOCBs) and controlled the process of state budget allocation. These have been used as important tools to finance its SOEs and strategic projects. In addition, the Vietnamese state has also instructed the SOCBs to finance its SOEs' strategic projects on credit rather than mortgage bases.

Thus, in terms of financial management, the Vietnamese state shows many similarities to the archetypal developmental states, such as Japan regarding the state guarantees of loans, South Korea concerning the state control of banks, or China in terms of SOCB reform. Additionally, the centralised control of all major domestic revenues and the exclusive control of the source of official development assistance - ODA (see chapter 4) have also given the Vietnamese state substantial power and capacity for actively managing financial sources, an important condition for it to manage the private interests.

Selective uses of industrial policies

This matter is studied in details in chapter 6 which illustrates that in the course of development Vietnam has created and used industrial policies, both broadly understood as Johnson's (1982: 26) and narrowly as Chang's (1994: 60) definitions of this type of policy. In addition, in contrast to the pre-reform period, the post-reform Vietnamese state has been very selective in prioritising different industries at different periods. It identified a list of prioritised

and key industries at certain time with many supporting policies. Furthermore, it has made special attempts at developing some projects that it perceived strategically important for long-term development, such as those in energy and petrochemical industries.

Regarding industrial structure policy, the Vietnamese state has always emphasised the target of increasing the proportions of industry and services, while reducing that of agriculture. In addition, a more rational structure of each industry has also been stressed. In agriculture (including forestry and fishery), besides increasing outputs and diversifying production, continuous attempts have been made to increase the proportion of livestock breeding, processed products, and industrial crops in the total agricultural value (see chapter 5). In industry, besides prioritising light industries at initial time, such strategic industries as energy, petrochemical, telecommunication and infrastructure have also received substantial state consideration. Meanwhile, special attempts have been made to move towards such industries of high technological contents as mechanical manufacturing and computing industry. Hitherto, all of this has helped Vietnam to obtain significant economic structural changes (see chapter 6).

Concerning micro sphere, the state has also concentrated on policies of rationalisation. This is evidenced in the process of SOE reform which aimed at increasing the efficiency of this force. Additionally, by applying import tax exemptions, privileged accesses to capital sources and accelerated depreciation method for advanced technology and production lines, the state has encouraged enterprises of all sectors to renovate and modernise their technologies to improve productivity and competitiveness (MOIT, 2008). Moreover, chapter 6 illustrates clearly that the business environment has also been improved considerably through a series of changes in the legal system towards a more equal arena for all players.

State-market relations

Entirely different from the pre-reform period wherein the Vietnamese state banned and eradicated all kinds of markets, and decided prices of products and the processes of production and distribution through its administrative orders, market mechanisms have been widely applied in the economy in the post-reform era (see Dang, 2009; Pham and Vuong, 2009). Prices, outputs and the distribution of products have been decided mostly by market forces - the buyers, sellers, demand and supply. However, in order to actively and proactively steer and lead market forces rather than passively respond to them, the Vietnamese state has had such interventional actions as the selective use of industrial policies and nurturing the system of SOEs and SOCBs (as shown above and will be seen in chapter 4), and the creation of various kinds of incentives at different times, in different areas and for different economic entities (as will be seen in more details in chapter 6). Such actions indeed go far beyond just conforming to the market. Those deliberate actions of ‘distorting’ the market carried out by the Vietnamese state actually follow the same DS traditions that Amsden (1989) terms as ‘augmenting’ the market or Wade (1990) theorises as ‘governing’ it. Thus, in the post-reform period, the Vietnamese state has actually shown its ‘capacity for mastering the market.’

Besides the above mentioned similarities between the Vietnamese state’s features and those of an ideal-typical DS, the Vietnamese state has also had some impediments to its rule. As we shall see in the following sub-section, the lack of some of the DS archetype’s features has resulted in the low efficiency of the economy in general, and the possibility of hindering the country’s sustainable development in particular.

Diverting from the DS

In the strict sense of the DS, such authors as Johnson (1982), Evans (1995) and Leftwich (1995; 2000) all stress the qualitative importance of the bureaucracy, the pilot agency and the industrial policy. Although there might be all of these factors in each country, the differences between countries lie in these factors' qualitative differences. Brazil, for example, was termed as an 'intermediate state' as it lacked organisational coherence of the state apparatus, due to the mechanism of political appointment and the difficulty in building meritocratic recruitment procedures (Evans, 1995: 61-2). Alternatively, the scope of 'real power, authority and technical competence...' will decide an institution to act as a 'pilot agency' or just a 'planning unit' of a developing country (Leftwich, 1995; 2000: 162). As will be seen shortly, Vietnam has encountered some problems in constructing those factors, which has partly undermined the implementation of its industrial strategies.

The limits of Vietnam's bureaucracy

Arguably, the most serious failure of Vietnam's leadership has been their lack of success in creating a state apparatus based on meritocracy. This is firstly due to the recruiting mechanism that has existed in Vietnam for several decades. Given the historical conditions of two long-running wars, people's loyalty was judged to be more important than other factors, even competence, in deciding who would be recruited into the system. This has also resulted in the fact that very few examinations have been organised for recruitment purposes. Even currently, the stickiness of this tradition has prevented the popularisation of the use of real (as opposed to formal) examinations in recruitment. Thus, despite the increasing number of recruiting examinations, their quality and seriousness have remained limited (Anh Phuong, 2010; Do, 2010).

Another reason is the dilemma of reforming the salary system that the Vietnamese state has faced over the past decades. Due to the large number of people dependant on the state budget, the state could not increase the salary more reasonably, as the current salary budget has already accounted for 30% of the total state budget, or 60% of the state's recurrent spending (Le, 2010d). This has made the average salary of the state sector significantly lower than that of the non-state sectors, especially the foreign invested enterprises (Van Anh, 2010; Pham, 2010). Additionally, the salary steps are too small and unscientifically structured (Le, 2010b).¹ This existing egalitarianism has largely demotivated the bureaucrats' devotion. Altogether these factors have resulted in one ultimate consequence that it has been rather difficult for the state to attract and recruit the best people for its apparatus.

However, it is also necessary to mention the continuous attempt of the state at high levels at coping with this situation. Stress has been placed on the administrative reform since as early as 1993, with a special focus on reforming the salary system (Van Anh, 2010). In addition, an increasing number of cadres have been sponsored for higher education, especially overseas in advanced countries, in hopes that this force will serve the state's need of high-quality personnel.² But the imbalance of state budget and the bloated bureaucratic structure have made the administration reform difficult. Meanwhile, the still small number of highly-educated cadres has not been able to win the remnants of the central planning regime yet. As a result, Vietnam's bureaucracy is still far from the quality of the type of a DS archetype.

¹ This is what Martin Painter said in an interview by one Vietnamese journalist on the salary system of Vietnam.

² There have been many programs from central to local states sponsoring cadres to go abroad for further studies, for instance, the education project of the Central Party Organisation Committee, the project 1,000 of Mekong River Delta Provinces, Project 322 by the Ministry of Training and Education, the high-quality personnel training projects of Ho Chi Minh, Danang and Haiphong Cities.

Governmental agencies of limited autonomy

At the central level, each ministry has been in charge of one or some functional areas (NA, 2001b: article 22). Among the ministries and ministry-level institutions, some might be more important than others due to the importance of their areas. The Ministry of Agriculture and Rural Development (MARD), for example, is responsible for the development of agriculture, fishery and forestry, while the Ministry of Industry and Trade (MOIT) controls industrial development and commercial activities (Vietnam Government, 2008a; 2007b). However, some ministries might have a broader influence over many areas. For instance, The Ministry of Planning and Investment (MPI) is to make long-term, five-year and annual plans on national socio-economic development, while the Ministry of Finance (MOF) drafts the annual allocation of state budget (Vietnam Government, 2008c; d). One more institution, not specialising in any specific area but still influencing all others, is the Government Office which is responsible for assessing all tasks before submitting to the PM and vice PMs (Vietnam Government, 2008b). However, due to the limited power and remit of each institution, no single agency can decide the development of one whole project without the support of others.

Consequently, Vietnam does not have any agency that enjoys such a large scope of autonomy as the MITI in Japan. Even though the MPI is the most important organ in designing the economic development strategies, and its tasks range from making plans on national socio-economic development to guiding other governmental agencies (both centrally and locally) to formulate their plans compatible with the approved strategies (Vietnam Government, 2008c), it is not free from the government's control of finance. And although it has been assigned to take responsibility in administering the implementation of plans in some areas, all financial spending has had to be settled by the MOF (Vietnam Government, 2008d).

In addition, although the MPI's subsidiaries are Departments of Planning and Investment at provincial level, in fact, it cannot impose much influence on them, as they are mainly controlled and directed by the local authorities (Dang and Beresford, 1998: 52). Therefore, even the most powerful institution like the MPI does not have enough autonomy to carry out the functions of a pilot agency as such.

Generally, as a pilot agency's technical competence and autonomous scope in forming development policy are crucially important (Leftwich, 2000: 162), clearly, none of Vietnam's governmental agencies could be comparable to a genuine pilot agency. However, such an organ as the MPI has indeed contributed to the strategic development more than just a planning institution, as it does foresee the importance of possibly strategic industries to incorporate into the plan (Vietnam Government, 2008c). Alternatively, the Government Office, despite not being a pilot agency as such, has significantly facilitated the formation and implementation of important programs, as it has played the filtering and advising roles for the PM to make final decision on important issues (Vietnam Government, 2008b). As far as agriculture is concerned, at least, as we will see in chapter 5, the MARD has actually acted as a real pilot agency of this economic area. In reality, when the three most important agencies, the MPI, the MOF and the Government Office, closely coordinate with each other, they indeed undertake a significant degree of piloting task for the whole the economy.

Problems of policy design and implementation

Despite the abundance of development strategies for the majority of industries (see in chapter 6), the quality of strategies, implementation capacity and measures have remained a question. For example, such extremist criticisms on the automobile development strategy as '... not suitable,' or '... confusedly chosen,' or finally, '... not successful' (Quynh Anh, 2010) might

demonstrate the qualitative problem of strategy building, even for important industries. More seriously, the recent failure of Vietnam's Shipbuilding Industry Corporation (Vinashin), once a proud symbol of Vietnam's heavy industry with high hopes of reaching out to the world market, has caused consternation through the methods and quality of strategy implementation. Development of the shipbuilding industry has been prioritised since 2001 and was again stressed in the resolution of the Tenth Congress in 2006 (CPV, 2001e; 2006a). Since then, this corporation (becoming a group since 2006) has enjoyed significant government support, especially easy accesses to capital sources (both domestic and overseas) and flexible mechanisms for fast implementation of construction and investment projects. Due to the lack of competence and dedication of the management personnel, the mechanism of flexible control has caused serious failures to this flagship group (TuoitreOnline, 2010).

In addition, as will be seen in chapter 6, even such an industry with a clear comparative advantage (e.g. cheap source of labour) and low-entry barriers as textile and garment, Vietnam could succeed in only one out of the five segments of the global apparel value chain. Even in segments of supplying raw materials and input components for garment processing, it has failed in developing them systematically, though it recognised their importance and put them in the industry's early development plans and strategies.

Therefore, although the Vietnamese state has foreseen and focused on many strategic industries, the lack of a capable pilot agency and a competent business management force has limited the outcomes of some areas. As even the current PM had to admit that, the result has still 'relied mainly on widening the production scale' (Nguyen Tan Dung, 2009), it is clear that, despite rapid economic growth, Vietnam's industrial upgrading still has some way to go.

In short, the limited capacity of the Vietnamese state bureaucracy, together with the lack of an effective pilot agency, has resulted in the development strategies of some industries

experiencing major implementation problems. It is also the limit of the Vietnamese bureaucracy that has created cases of corruption, as highlighted by Gainsborough (2003), which has distorted the implementation process of state policies and strategies at lower levels. These factors have also impeded industrial upgrading aspects of Vietnam, and will probably undermine the country's sustainable development. However, it is worth stressing that, efforts to improve the quality of the bureaucracy has received substantial attention from the leadership of the country, and the trend has been positively directed towards a more meritocratic content for the bureaucratic system.

Conclusion

In this chapter, we have seen how such factors as the historical legacies, socio-economic and political structures, cultural patterns, ideologies and challenges of Vietnam have been important to the shaping of the development trajectory and the type of the state in this country. The history under a long period of domination and substantial influence by the Chinese feudal regimes made Vietnam become a society of Sino-centric traditions, with its long-established cultural preference for familial and communitarian social relations and hierarchical political relations. This cultural preference has created a weak civil society in Vietnam, with negligible individual political democracy or public participation. This has facilitated the emergence and formation of a relatively strong state. In addition, the series of wars that the Vietnamese people had to fight since the foundation of the CPV in 1930 and of its state in 1945 required and also allowed the Vietnamese state to mobilise resources and concentrate power. This in turn helped the state to win the wars and then dialectically obtain more legitimacy from its people to consolidate, centralise and strengthen the state's power.

Moreover, the coherence, embeddedness and autonomy that the Vietnamese state has possessed are also largely defined by its party-state organisational structure and its distinctive way of penetrating and controlling the society.

These properties of the Vietnamese state and its historical legacies, together with the coexistence of a number of unfavourable external and internal factors during the late 1970s and the early 1980s contributed to the conjuncture of all necessary preconditions favourable for the emergence of a DS in Vietnam at the time of the reforms of 1986. It could be said that the 1980s was a decade of a complete crisis in Vietnam. It faced severe external threats in terms of security, notably the wars against the Democratic Kampuchea and subsequently China, as well as in economic sphere, with a fragile embargoed economy which was heavily dependent on the Soviet Union, whose collapse in the early 1990s further exacerbated the situation. Meanwhile, the failure of the central planning system nationwide caused tangible economic chaos and a latent political disturbance throughout the country. This very difficult context facilitated the emergence and dominance of a political leadership with a set of developmentally-driven rules as a last resort to escape from the total crisis. In addition, the historical legacies, together with the interaction between the internal and external political processes since the Vietnamese state was founded, have provided it with accumulating properties as a coherent single-party state of substantial power concentration. Furthermore, the gradualist approach to reform and Vietnam's political tradition of respecting the outgoing leaders' appointments of their successors have underpinned the continuity of the country's policy. These factors provided all the necessary preconditions for the emergence of a DS in Vietnam around the 1986 reform.

In addition, this chapter has generally shown that the Vietnamese state emerging from the convergence of the above-mentioned conditions possessed the majority of the ideal-typical

elements and characteristics of the archetypal DS. Although the comparison also reveals the lack of some ideal-typical DS features, notably the absence of a bureaucracy of high competence and a genuine pilot agency, the Vietnamese state has possessed the four most important features which, as pointed out in chapter 2, include the presence of a developmentally-oriented leadership; embeddedness; sufficient state autonomy; and capacity for mastering the market. With these elements initially in place, the Vietnamese state has gradually built and possessed the majority of the others.

Among the four most important elements and features that the Vietnamese state possessed, two were the products of its long historical legacies and the others emerged from the imperative conditions that it faced before the time of the reform. The coherent and embedded organisational structure of the party-state system of Vietnam, whereby the CPV deeply embeds itself in the state apparatus and the Vietnamese state intensively embeds itself in society, is a result of a long process of centralising, consolidating and strengthening state power. Together with the cultural preferences pointed out above, this provided the Vietnamese state with both embeddedness and sufficient autonomy even before the reform. The severe threats before the reform period actually became favourable conditions for the emergence of a developmentally-committed leadership and the introduction of market mechanisms into the economy. These initially decisive factors have helped the state to achieve other DS elements and features. Meanwhile, these initial factors have also been strengthened.

Although this chapter has highlighted that generally the Vietnamese state has still lacked two DS features - a competent bureaucracy and a genuine pilot agency, as will be seen in subsequent chapters, indeed the Vietnamese state has been able to develop and possess these two components in agriculture, while failed in doing so in industry. The lack of these

two components, coupled with the unfavourable international context during the reform process, has affected the degree of success that Vietnam has achieved. But its achievements have still been assessed by outside observers, including the World Bank and the IMF, as very significant. This suggests that the possession of the most important elements and features of the ideal-typical DS has allowed the Vietnamese state to compensate for the lack of some other features and the absence of a favourable international context.

In order to verify and validate the above claims we need to investigate in more details the elements and features, or more generally, the role of the Vietnamese state in specific sectors of the economy. Thus, the subsequent chapters will scrutinise the main intervening mechanisms and two major economic areas, agriculture and industry, to clarify the Vietnamese state's intervening methods and its concrete roles in these sectors.

Chapter 4: The Central Mechanism of State Intervention

In the central planning system of Vietnam, only two types of economic entities, state-owned enterprises (SOEs) and cooperatives, were legally permitted, other types did exist but were illegitimate and often depressed by the state (Dang, 2009: 99-124). Those two legal economic entities covered all aspects of the economic life. Since the reform in 1986, the state has dismantled, reorganised those economic forces and allowed other economic entities to exist and develop (CPV, 1986b). Since then, Vietnam's business force has diversified significantly and comprised five economic entities, with a flourishing and growing non-state economic sector which, both domestic and foreign capital, accounts for about 60% of the country's GDP (see chart 4.5 below).¹

The diversification of economic sectors, together with the process of reforming SOEs which has reduced the number of SOEs by manifold (from 12,084 in 1990 to 1,192 in 2008 (Evans and Bui, 2003; Hong Phuc, 2009; Sjöholm, 2006)), has intuitively created the perception for outside observers that the Vietnamese state has lost much of its power in directing and intervening in the economy. This intuitive perception particularly gains more ground, when Vietnam's recent reform process has taken place in the context of increasing influence from the major liberal institutions (such as the World Bank and the IMF) which

¹ The five economic sectors are *the state-owned economic sector* - including state-owned enterprises (SOEs), the state bank, and the national reserve budgets; *the collective economic sector*; *the state capitalist economic sector* - that is, the joint stock business between the state-owned economic sector and private sector; *the household and small-owner economic sector* (household business does not hire labour, whereas, small owner does, both are small scale businesses); and *the private capitalist sector* - comprising private enterprises, limited companies, and shareholder companies formed by private investors (CPV, 1996). Since the Ninth Congress in 2001, foreign investment has been mentioned as an economic sector that is called *the economic sector with foreign investment (both direct and indirect)*. So, sometimes it is said that the economy has 6 economic sectors. However, the majority considers those as five sectors, when *the household and small-owner economic sector* and *the private capitalist sector* are combined into one sector of *the private economic sector* (CPV, 2001b).

have even affected the Vietnamese state by cooperating with its planning agencies in terms of policy advising and development agenda (Masina, 2006: 95-9).

However, the findings of this chapter show an adverse outcome. Although the Vietnamese state has managed to reduce a large number of SOEs and create numerous private economic entities, it has retained substantial control over a strengthened network of major SOEs, operating in almost all key areas of the economy and ceaselessly expanding in all absolute indicators (e.g. investment capital, turnover). More importantly, the Vietnamese state has been able to utilise its continuing control of the major financial sectors, through the consolidation of the state-owned commercial banks (SOCBs) and the centralised control of state budget process, including access to sources of official development assistance (ODA). With financing tools in hand, and a large force of strategic SOEs closely related to the centre, the Vietnamese state can actively exercise its power in directing the course of economic development.

In highlighting the nature of the whole reform process in Vietnam, this chapter investigates four major themes. The first section focuses on the process of reforming SOEs, with special attention paid to the early intention of the state in purging the SOE force to form the most strategic part of the economy under the direct control of the central state. Also regarding the SOE reform, section two looks at the reform of the SOEs operating in the financial sector, that is the SOCBs, and shows that the Vietnamese state has insisted on retaining the control of this financing tool. From another angle of finance management, the third section analyses the process of state budget collection and allocation, which suggests that although the central state has decentralised considerable autonomy to the local authorities, the central state has remained dominant in deciding the allocation of this important financial source. To uncover the logic of management and intervention of the

Vietnamese state, the last section concentrates on the close relation between the state and the SOEs, especially the state-owned groups and corporations (SOGCs), and the state's use of this business force to cope with macro-economic fluctuations and carry out strategic investments.

Already, we have briefly touched those points in chapter 3, when reflecting the constituent parts of the Vietnamese states on the features of an archetypal DS. Hereunder, those themes will be analysed in a more detailed manner, in order to illustrate the Vietnamese state's intention of and techniques for retaining the central power over the important management tools and leading the course of the country's development.

4.1. The SOE Reform: Picking and Creating National Champions

The SOE reform process of Vietnam has been studied rather thoroughly by various authors, both internationally and domestically. They have looked at different angles of the process, such as the challenges and achievements (Vu, 2003), the gains and losses in terms of social impacts (Evans and Bui, 2003), or the efficiencies and performance of post-reform SOEs (Truong, 2006). One commonality found by various authors was that the process has been rather slow compared to the government's plan as well as international donors' expectations. This partly reveals the fact that instead of retreating the Vietnamese state has maintained its influential role in the economy (Mekong Economics, 2002; Truong, 2006: 41-2; Sjöholm, 2006), or has even advanced to engagement in 'both direct and indirect government' (Gainsborough, 2008). However, while many authors have mentioned the two decisions on restructuring SOEs, 90/QD-TTg and 91/QD-TTg (see below), in describing and analysing Vietnam's SOE reform process (Vu, 2003; Truong, 2006: 38; Mekong Economics, 2002),

their importance and strategic implications towards the state's attempts at retaining central control over the nucleus of this SOE force have been overlooked.

This section argues that those decisions vividly embody the Vietnamese state's skilful techniques for reforming the SOEs, with which the central state can "recentralise" the majority of the SOEs before gradually privatising part of them.¹ For this purpose, this section is dedicated to an in-depth analysis of these two decisions and their impacts on the shaping of the current SOE force to highlight the state's intention in maintaining its power and the tactful ways that it has used to achieve its goals. In addition, it also shows that in actuality the SOEs, especially centrally-controlled ones, have not declined, whereas this force has been expanded in many aspects such as investment capital, production capital, turnover and contribution to the country's GDP. By analysing the recentralisation process this section uncovers the nature of the SOE reform in Vietnam, highlights the way that the central state has regained control of the majority of the strategically important SOEs.

The SOE reform: not a divestment

In practice, the process of reforming SOEs in Vietnam took place in a very prudent and cautious manner right from the beginning (Sjöholm, 2006). This originated from the direction of the Vietnamese highest leadership that required to 'reinvest the capital acquired from equity sale to expand production and ceaselessly increase state-owned properties' and 'to distinguish equitisation from privatisation' (CPV, 1996). As a result, even the term "privatisation" was also avoided and replaced by "equitisation." This is because the term

¹ "Recentralise" here means the counter action of "decentralise," with which the state tries to centralise the power and properties possessed by authorities of lower levels, or centralise those that have already been decentralised to them.

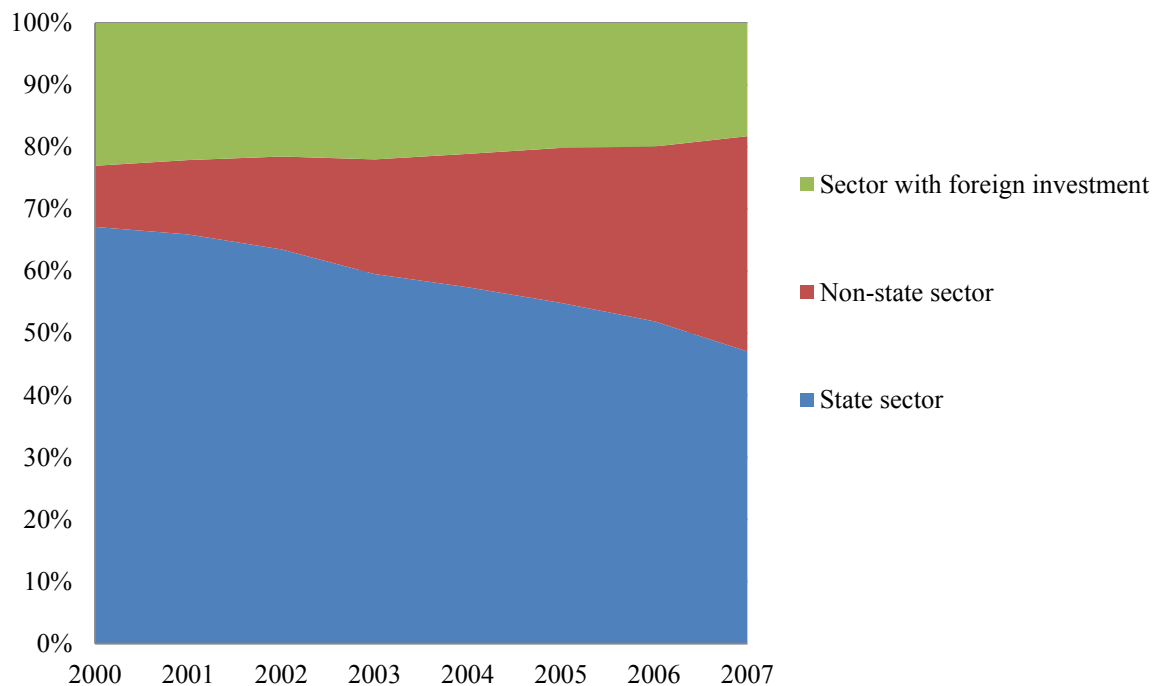
“privatisation” ‘will abolish or undermine the regulatory capacity of the State towards the economy in the socialist-oriented market economy’ (To, 2006).¹

Consequently, the Vietnamese state has not allowed private participation in all SOEs. Instead, only small, non-strategic and local SOEs have been equitised. For example, by the end of 2007, 77% of equitised companies were of less than 10 billion VND of capital (about half a million USD), thus larger equitised companies accounted for only 23% (MOF, 2008a). In addition, among the equitised enterprises central SOEs accounted for only 11.6%, while local SOEs took up 58.1%, and the rest, 30.3%, was ministries’ SOEs (MOF, 2008a). This means that the equitisation process has done more with local and small SOEs, while very little with centrally-controlled or large SOEs.

While the pressure on quicker liberalisation and equitisation has been increasingly imposed by many international donors (Evans and Bui, 2003), the Vietnamese state has found its own way of coping with this influence. As shown earlier, the equitisation process has substantially shrunk the number of SOEs. In terms of employment the state sector now accounts for only 10% of employment (Nguyen and Freeman, 2009), while the state’s share of production capital has decreased from about 70% in 2000 to below 50% in 2007 (see chart 4.1). Therefore, at first glance, those outcomes appear to conform to donor preferences, as they illustrate a clear sign of a decline of SOE and state involvement in economic activities. However, as will be seen shortly, this is not the real nature of this process.

¹ It is noteworthy that, as a key member of the Politburo, the opinion of the author of this citation - Rua Huy To, represents that of the political system. The terms “equitise” and “equitisation” originate from the term “equity.”

**Chart 4.1 - Structure of production capital by economic sector
from 2000-2007**



Source: Selected data from 'Annual average capital of enterprises by type of enterprise', (GSO, 2008a).

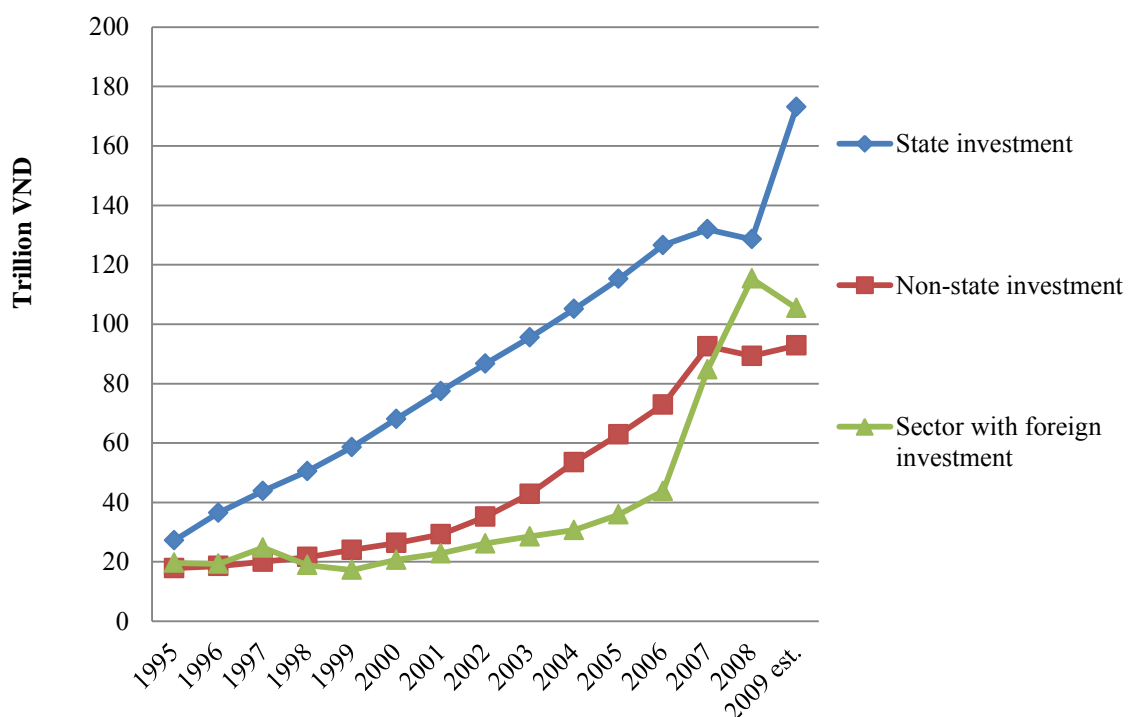
Note: the state sector in this chart does not include state shareholder companies, thus, its actual percentage should even be larger.

In essence, although the share of GDP contributed by the SOEs has declined to about 34% in 2008 from more than 40% in 1995, this decline was not caused by the divestment or shrinkage of SOEs. In contrast, the force of SOEs has expanded in many fields. Firstly, the investment capital of the state sector has always been higher than that of the other two sectors (see chart 4.2). This has resulted in a continuous increase in the production capital of the state sector, which, for example, increased by threefold between 2000 and 2007 (see chart 4.3). Consequently, this increase has led to a rapid rise in the turnover of the SOEs (see chart 4.4). Thus, the absolute value that the SOEs have contributed to the country's GDP has kept increasing continuously, and the gap between the state and non-state sectors have not much widened since 1995 (see chart 4.5). Therefore, in actuality, the Vietnamese state has

reorganised and strengthened its SOE force, so as to expand it significantly, despite the process of equitisation.

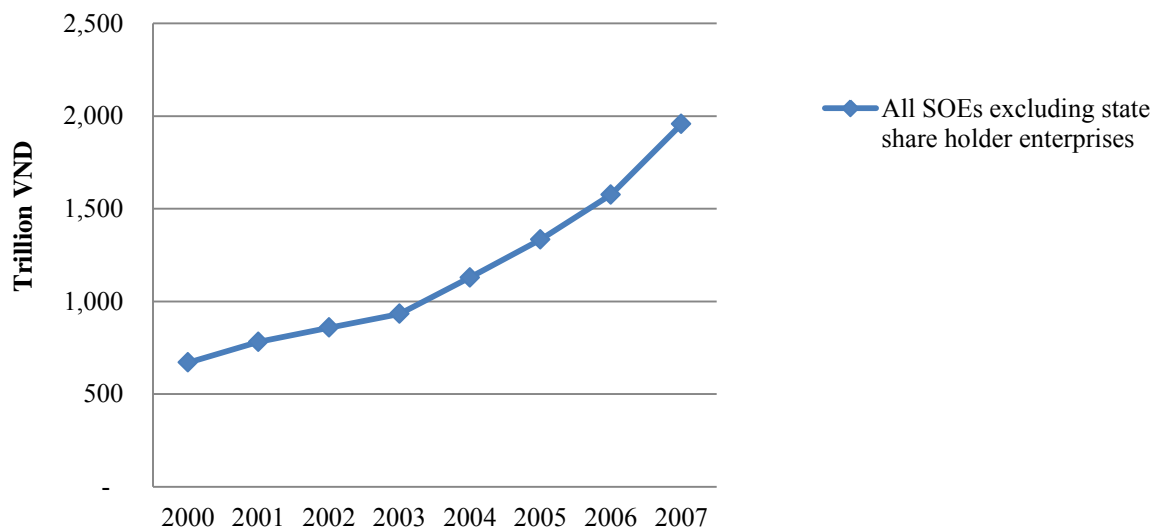
However, this does not mean a financial crowding out of the private sectors, as private investment capital has also increased significantly, and foreign capital has even been crowded in by the state investment (IMF, 2007: 56). This is also the difference between Vietnam and China, as the latter's private sectors could hardly get access to the formal financial system of China (Tsai and Cook, 2005).

**Chart 4.2 - Investment capital by economic sector
from 1995 - 2009 in 1994 price**



Source: Selected data from the statistics on 'Investment by ownership', (GSO, 2010b).

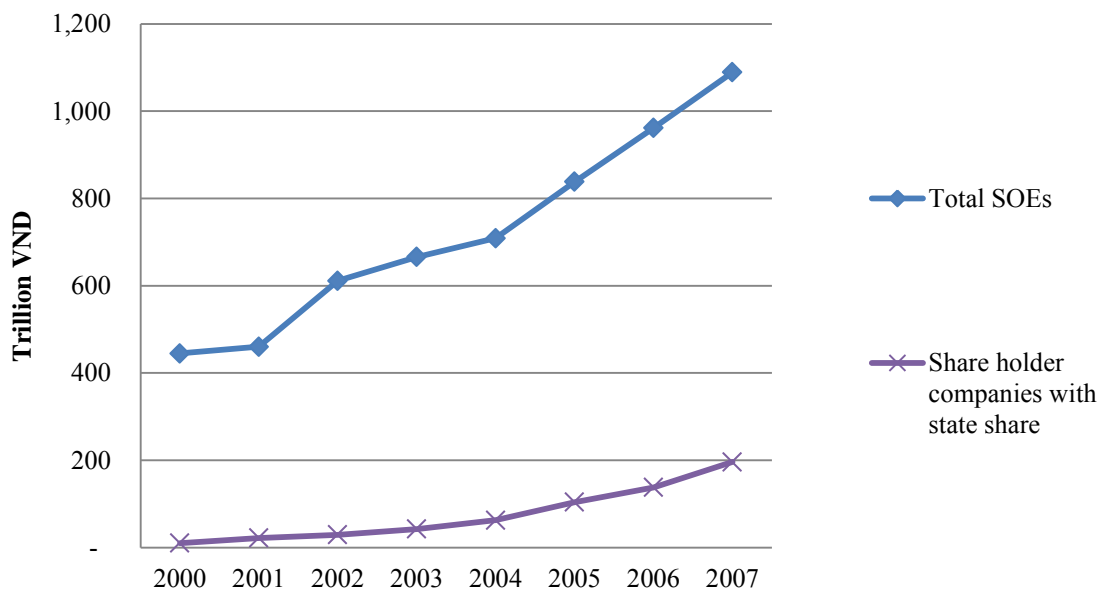
Chart 4.3 - Production capital of SOEs from 2000-2007



Source: Selected data from 'Annual average capital of enterprises by type of enterprise', (GSO, 2008a).

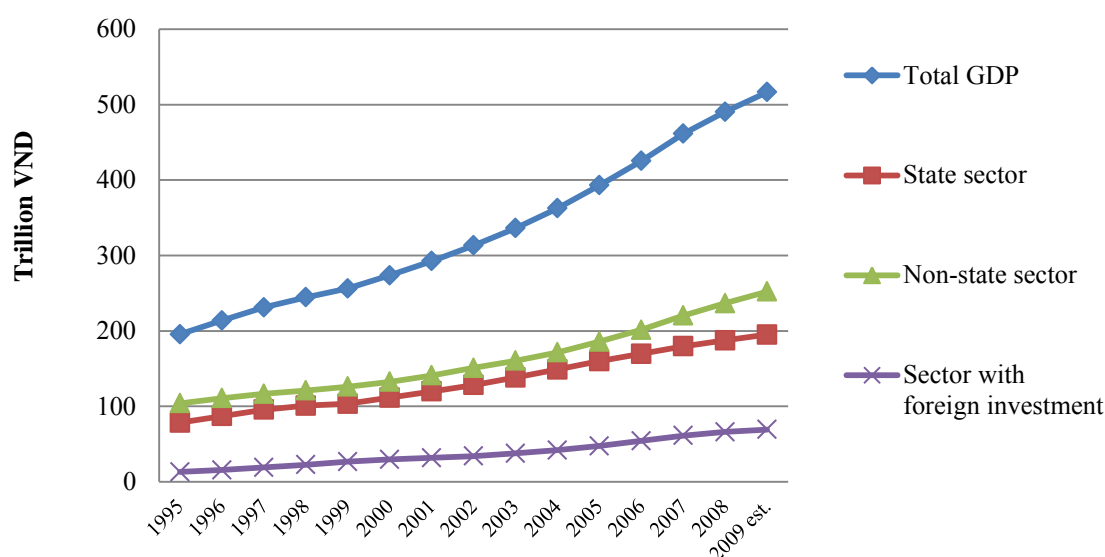
Note: the figures were calculated at the end of each year.

Chart 4.4 - Annual turnover of SOEs from 2000-2007



Source: Selected data from 'Net turnover of enterprises by type of enterprise', (GSO, 2008b).

Chart 4.5 - GDP in 1994 price by economic sector from 1995-2009



Source: Selected data from 'Gross domestic product constant 1994 prices by ownership and by kind of economic activity', (GSO, 2010a).

Note: the state sector here does not include state shareholder companies, thus, its actual value should even be larger.

As the foregoing discussion has shown, the Vietnamese state has still persistently invested substantially in many of its SOEs, despite the seeming enthusiasm of reducing them, especially regarding the overall number of SOEs. As a result, although there has been a decline in the share contributed to GDP by the SOEs, this decline has largely been caused by the growth of other economic sectors, not by the divestment of the state.

Substantially restructuring before equitising the SOEs

Arguably, the Vietnamese state had well anticipated for the SOE reform process. As this process started in 1992, then right in 1994, the government had two important decisions, namely, Decision 91/TTg and Decision 90/TTg,¹ both dated 7 March 1994 which, as will be

¹ The SOE reform process began with the Decree 388/HDBT dated 20/11/1991 by the Council of Ministers (Hoi Dong Bo Truong) on Issuing the Regulations for Establishing and Equitising SOEs, see (CM, 1991). TTg stands for Thu Tuong (Prime Minister) that means decisions signed by the PM.

seen shortly, have paved the way for the creation and development of the force of big SOEs under the central state's control. The points of time here are meaningful. As analysed by many authors, the process of equitisation in Vietnam can be divided into two phases. The first was from 1992 to 1998, considered as a period of pilot projects, with only 116 SOEs being equitised (Evans and Bui, 2003).¹ Those equitised in this period were all small, loss-making and local SOEs (Vu, 2003). The second phase, since 1998, has seen a large number of SOEs being equitised, leased or contracted out. However, by this time, what the state needed to consolidate and rearrange had already been done. Therefore, the state could keep the core of the SOE force by having equitised only low-efficient, non-strategic, small and local SOEs.

As far as the two important decisions are concerned, the first, Decision 91/TTg, is 'on pilot foundation of business group,' by which the central government has picked the crucial part of the existing SOEs to create the largest and most strategic corporations. The corporations founded under this Decision are so-called 'Corporation 91' (Tong Cong ty 91). Qualified this type of corporation had to be the biggest SOEs at that time.² Thus, with this decision, the central state could select all the first-tier SOEs to establish the largest corporations in the economy.

The second decision, 90/TTg, is about 'continuing rearranging SOEs' which also stipulates the foundation of another type of corporations called 'Corporation 90' (Tong Cong ty 90) which included all the second biggest SOEs at that time.³ More importantly, if those

¹ Some others considered this pilot period lasted from 1992 to 1996, when viewing the issuance of Government Decree 28/ND-CP on 7 May 1996 as an end of this period (for example, Vu, 2003). However, as there were only 25 SOEs being equitised since then until June 1998, it is possible to mark the end of this pilot period by Government Decree 44/ND-CP issued in June 1998 to replace Decree 28/ND-CP. As since this point of time, the equitisation process has been accelerated significantly.

² To be qualified the conditions of Decision 91/TTg, an SOE had to have from 7 member companies and the legal capital of at least 1 trillion VND – approximately 100 million USD in 1994 (Vietnam Government, 1994b).

³ To be qualified the conditions of Decision 90/TTg, an SOE had to have from 5 member companies and the legal capital of at least 500 billion VND - about 50 million USD in 1994, although in some special industries, the minimum level of legal capital could be from 100 billion VND (Vietnam Government, 1994a).

had not been qualified yet, but still necessary to become this type of corporation, would be consolidated and merged or joined to others to get qualified, then would finally be transformed into this new type of corporation (article 5 of Decision 90/TTg). Thus, this decision, together with Decision 91/TTg, has filtered to extract all of the most valuable parts of the existing SOEs to form a force of strategic and large SOEs before equitising the rest. By doing so, the Vietnamese leaders could both offer concessions to the preferences of international donors and retain the core of the SOEs, meanwhile, rid the state books of some of their deadwood parts.

While the Vietnamese state was initially very slow at equitising its SEOs, it was very quick to restructure this force. The government continuously urged the related organs to quickly implement the contents of these two decisions, through a number of directives signed soon afterwards. For example, Directive 272/TTg on 3 May 1995 called for ‘early completion of the reorganisation of the unions of enterprises and corporations,’ or Directive 573/1996/CT-TTg dated 23 August 1996 aimed at ‘facilitating the corporations founded by the Prime Minister to early operate stably’ (PM, 1995; 1996). As a result, by August 1996, 18 Corporations 91 had been founded (PM, 1996). During this time, 73 Corporations 90 were established to cover almost every important aspect of the economy (Pham, n.d.). These types of corporation have continued to grow and develop ever since. This has consequently made this force now comprise 105 such large conglomerates, of which some have been upgraded and transformed into ‘state business groups.’¹ Altogether they have been the “backbone” of the national economy (BaoNhanDan, 2010).

¹ State Business Group is defined as a group of large-scale enterprises linking together under the pattern of parent-affiliated companies and other forms, to create an amalgamation of enterprises intimately and permanently interrelated in terms of economic benefits, technology, markets and other business services (see more in Vietnam Government, 2009b).

Another point worth emphasising here is that those central biggest corporations have mainly been founded on the bases of the already existing SOEs. Besides transforming and rearranging those that had been qualified the criteria stated in these decisions, the state intentionally consolidated the SOEs that it perceived important for long-term development. This is illustrated in the fact that those 90 and 91 corporations encompassed around 2,000 member SOEs, of which 70% was the centrally-run SOEs (Pham, n.d.). This process vividly showed that the central state deliberately restructured all the SOEs, both centrally- and locally-controlled to form a new force of centrally-controlled SOEs for its long-term development purposes. From another angle, this process has also been a purge of SOEs, as those not qualified to become new corporations, or not affiliated to them, would finally be equitised, sold or liquidated.

In general, these two decisions have been clearly important to the foundation of the current SOE force in Vietnam. They have not only helped the central state to pick, restructure and consolidate the most strategic part of the SOEs to create the national champions for the country's future development, but have also decided the nature of this current force of SOEs, that is a much higher centralised nature compared to the pre-reform SOEs. This matter will be analysed in the next subsection.

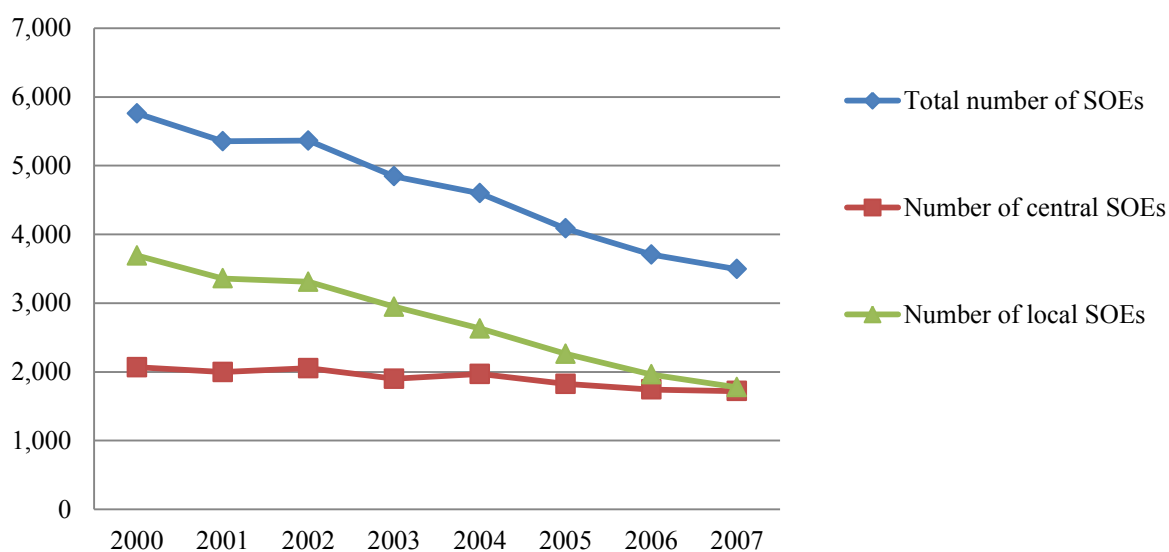
Recentralisation in action

One important feature of the SOE reform process in Vietnam that has been largely neglected is the significant recentralisation of this force back to under the control of the central state. Due to the historical condition of development mainly in wartime since the country's independence, Vietnam's state decision-making and national production network were rather decentralised, so as to give more autonomy to local authorities (Dang and Beresford, 1998:

19; Norlund, 1984). As a result, before the SOE reform, every province and city had their own local SOEs covering almost all areas of the economic life. And as pointed out earlier, the process of SOE reform has mainly aimed at settling the small, non-strategic and local SOEs, while largely maintaining and consolidating large-scale, strategic and central SOEs. This is also evidenced in the much faster declining trend of local SOEs compared to central SOEs as shown in chart 4.6. While the number of local SOEs has halved over 7 years since the end of 2000, the number of central SOEs has only slightly changed.

The main reason that has made the central SOEs increasingly be strengthened over time is the large amount of capital being continuously invested in the central SOEs. As have seen, the Vietnamese state has not divested during the SOE reform process, on the contrary, it has maintained a high level of investment in its SOEs (see chart 4.2). However, the flow of investment capital has been largely channelled into the central SOEs, while the local ones have absorbed little. This is evidenced in the total production capital of the central SOEs has gone up rapidly, while that of the local SOEs has remained quite stable (see chart 4.7). This has made the central SOEs absolutely dominant, while local ones largely negligible (see chart 4.8). Thus, by continuing to invest substantially in central SOEs, but little in local SOEs which have mainly been equitised, the Vietnamese state has increasingly focused on strengthening the force of centrally-run SOEs.

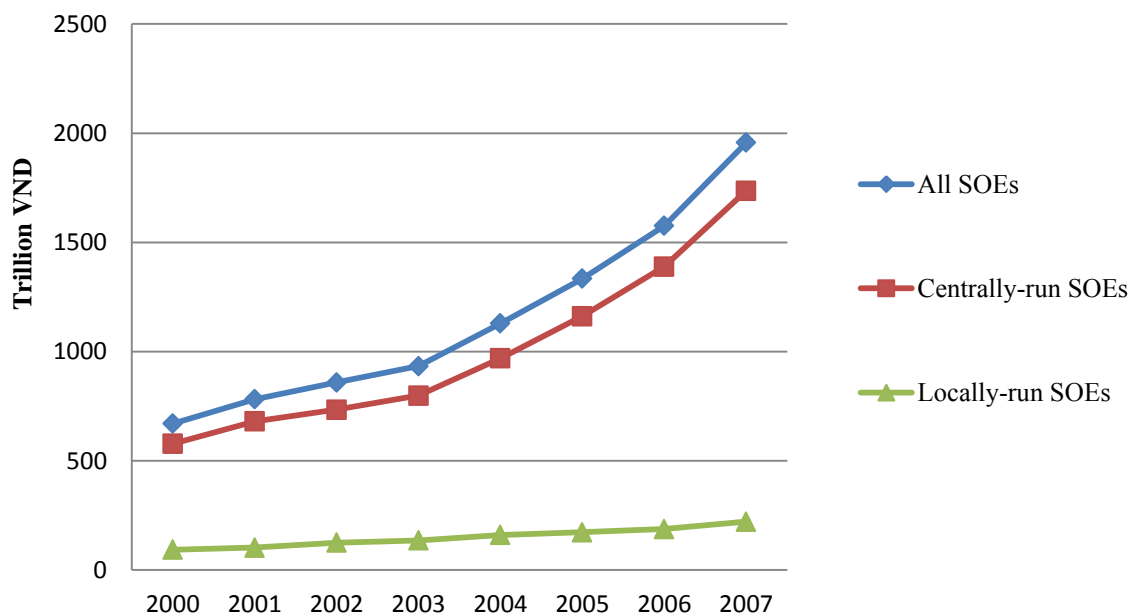
Chart 4.6 - Number of SOEs on 31 December annually



Source: Selected data from 'Number of acting enterprises as of annual 31 December by type of enterprise', (GSO, 2009b).

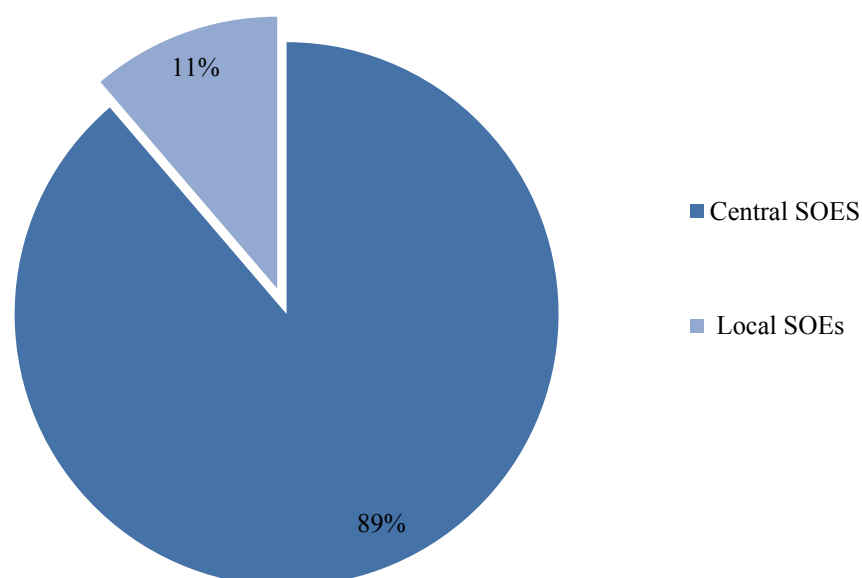
Note: The SOE number here includes all the member SOEs of corporations and groups.

Chart 4.7 - Production Capital of SOEs 2000-2007



Source: Selected data from 'Annual average capital of enterprises by type of enterprise', (GSO, 2008a).

Chart 4.8 - Production capital of Central and Local SOEs in 2007



Source: Selected data from 'Annual average capital of enterprises by type of enterprise', (GSO, 2008a).

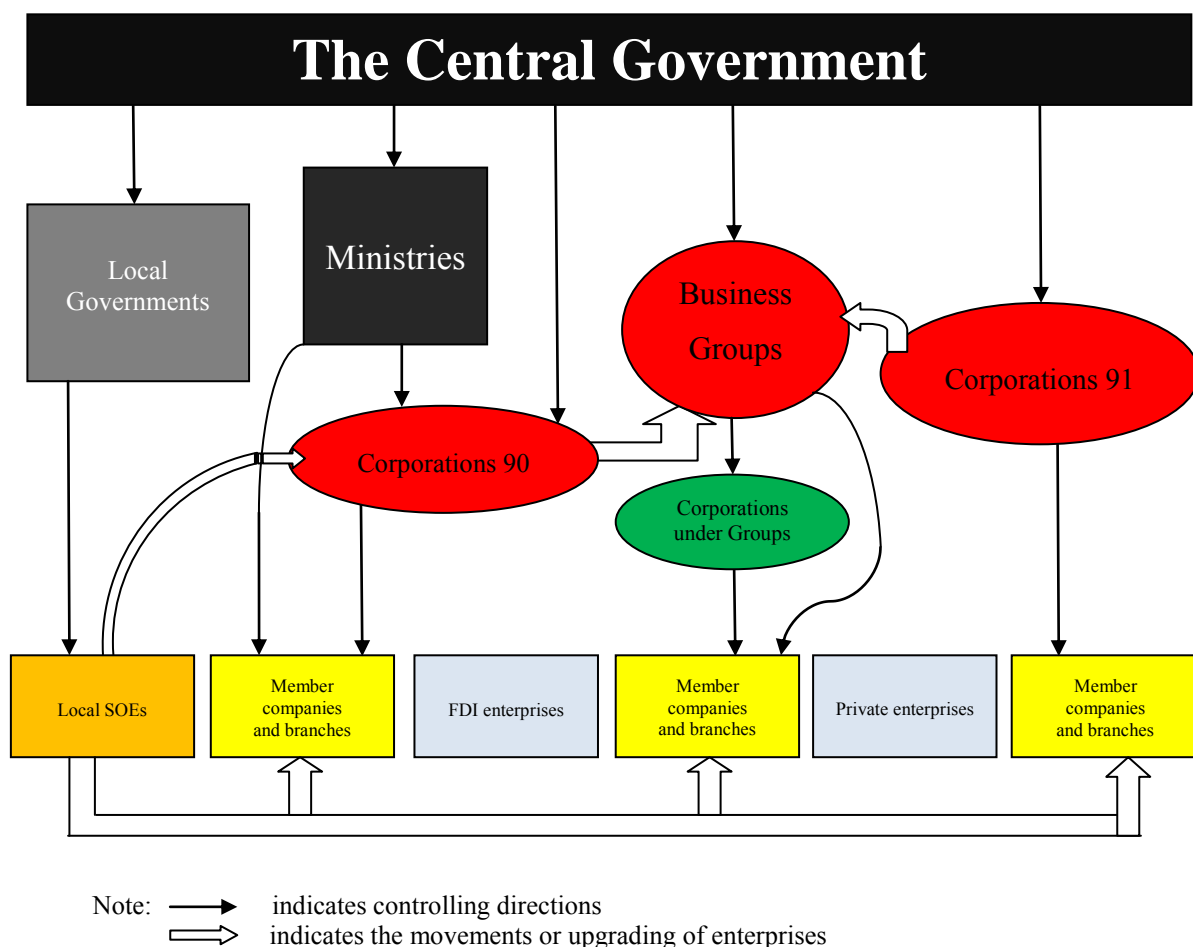
In addition, the privileges that the central SOEs have enjoyed are not only confined to credit access. Monopoly or oligopoly over the area that they occupy, for example, is another important privilege that they have been given (will be seen in section 4.4). This has consequently enabled the central SOEs to have many absolute advantages over other enterprises, including local SOEs. Moreover, as mentioned earlier, the SOE reform has indeed been a purge of SOEs, where inefficient, non-strategic, small and local SOEs were facing the danger of being equitised, sold or liquidated. Thus, to avoid this fatal settlement, they had to join up with other large and central SOEs which would become either type of the 90 or 91 Corporations. As a result, insofar many local SOEs have moved away from local states to join

central SOEs which later became Corporations 90 or 91.¹ This suggests that the SOE reform process has actually become the recentralisation of local SOEs to build a force of large-scale SOEs under the direct control of the central state.

The direct control of the central state is illustrated in a number of features that those SOEs have been organised. Firstly, according to the two Decisions, 90/TTg and 91/TTg, all Corporations 90 and 91 are founded under the decision by the PM, the personnel of the management board of Corporations 91 are appointed by the PM, while the personnel of Corporations 90 are approved by the PM (Vietnam government, 1994a; 1994b). Secondly, the central state and line ministries have influential voices (either deciding or approving) over the development strategies, programs and important issues of those SOEs (Sjöholm, 2006). This is also clearly illustrated in diagram 4.1 depicting the structural hierarchy of the state system and the enterprise, which also shows that the local governments have little influence over this central SOE force, as those SOEs are not under their control. Furthermore, those corporations have been the nucleus for the central state to form large-scale state-owned business groups when they reached their maturity (QuangVinh, 2010), which has consequently strengthened the overall centrally-controlled business force over time. Last but not least is the close relation between the state, notably the central state, and this business force, which has given dense reciprocal links between them, maintained the central state's directive power towards this SOE force (will be seen in subsection 4.4).

¹ This trend is even still continuing now, as reported by the SOE Reform Committee of 2009 that in 2009 there were 171 companies voluntarily applying to affiliate with groups and corporations 91 and 90 (Vneconomy, 2010a).

Diagram 4.1 - The hierarchy of governmental organs and enterprises



In short, with two important decisions on rearranging SOEs to form Corporations 90 and 91, the Vietnamese central state had selected the most potential and important parts of the existing SOEs to establish a pivotal force of centrally-controlled, large-scale SOEs, before equitising, selling and liquidating the rest. As a result, the nature of the SOE reform process in Vietnam is not a retreat of the state in involving direct production. In contrast, the state has continued to invest in its SOEs and made this force expand significantly in terms of production capital, turnover and contribution to the country's GDP. In addition, the reform process has also been a purge of SOEs by which the state released all small, inefficient, non-strategic and local SOEs, meanwhile, kept the core of SOEs and recentralised it under the

central control. Arguably, this outcome has actually originated from the general principle that the Vietnamese state has always considered the SOE as ‘an indispensable part of the state economic sector,’ therefore, the process of ‘equitisation in Vietnam is not a comprehensive retreat of SOEs or privatisation’ (To, 2006).

Comparatively, what has happened in Vietnam in terms of SOE reform reflects the ‘grasp the big, let go the small’ nature of the reform in China (Beeson, 2009). This has made the approach of Vietnam and China rather close to such successful East Asian countries as Japan and South Korea, in terms of creating and nurturing large industrial conglomerates (Dodds, 1996). And the similarity between Vietnam and China will also be seen in the way of reforming a type of special SOEs, the state-owned commercial banks (SOCBs), which will be analysed in the next section.

4.2. Reforming the SOCBs: Renewing the Financial Tool

The capacity for controlling and managing the financial resources of any country is crucial to the implementation of development projects. As highlighted in the analytical framework for this thesis in chapter 2, this capacity is especially important in the case of the DS, where the state strategically involves many investments. As it is apparent that the banking system is one of the most important financial tools of each economy, controlling it is, therefore, one important task of the DS. This task is also crucial for states in transitional economies, as the experience of Russia shows that its premature liberalisation of the banking system led to ‘an “irony of autonomy”’ which did not facilitate the construction of a market economy in Russia, but only served to enrich a few people and made the state substantially dependent on bankers (Johnson J., 2000: x).

As a transitional country, when moving from plan to market, the Vietnamese state had already had a force of SOCBs, the important tasks would, therefore, be how to deal with this force. As will be seen shortly, different from Russia, the Vietnamese state has attempted to strengthen the system of SOCBs, and has seemed very reluctant to liberalise it. More specifically, it has strived to retain the active control of this financial tool, in order to finance the large-scale and strategic SOE force that it has attempted to recentralise and create.

In this section we will see that the state banking system of Vietnam has still had a leading role in the financial market. Although the process of reforming those SOCBs has taken place for decades, the state banking sector has been significantly consolidated and supported by the state, while very gradually and cautiously equitised. In addition, the SOCBs have tended to focus mainly on funding SOEs, especially large and strategic corporations and groups, to serve the state's developmental targets. However, the general trend has also shown the SOCBs' proportional shrinkage of loans to SOEs, more diversified markets and improved performance.

The banking system dominated by SOCBs

Although there are only 5 SOCBs, the state banking sector has persistently accounted for a major share of the financial market in Vietnam.¹ The separation of the Central Bank and commercial banks took place in 1988, following which the four SOCBs were founded on the basis of the four corresponding departments of the State Bank of Vietnam (SBV) (CM, 1988; Thomas, 2003). Thus, except for the newly established Mekong Housing Bank (MHB) – in 1997, the other four SOCBs are long-founded and currently named as Vietcombank;

¹ Besides those SOCBs, Vietnam Bank for Social Policies and Vietnam Development Bank are also entirely owned and controlled by the state, but they are not commercial banks.

Agribank; Vietinbank; and the BIDV.¹ The number of branches and transaction offices of these four SOCBs has risen rapidly, from about 1,200 in 2003 (Thomas, 2003) to approximately 4,000 recently.² This system of branches and transaction offices spreads throughout the country, covers almost every locality and serves the majority of the domestic borrowers, notably big clients.

Despite a declining trend of the share in the financial market, the SOCBs have still shown an absolute dominance over this area. The 2004 figures show that among the 85 financial entities operating in Vietnam, the state banking sector was predominant, accounting for more than 75% of total assets, loans and capital mobilisation (Pham and Vuong, 2009: 197). Due to the encouragement of other non-state financial entities, the share of SOCBs has decreased, but still remained dominant.³ For example, in 2008 the SOCBs still accounted for more than 60% of the banking sector in terms of total assets, loans and capital mobilisation (Saga, 2008). In addition, those SOCBs have often been the major and founding shareholders of other joint stock banks and financial institutions.⁴ Thus, although small in number, the market share of the SOCBs has been substantial, as they have many advantages.

One group of advantages come directly from the patronage of the government. The first is their initial endowments in terms of both visible properties, such as land, houses, nationwide networks, and invisible assets, such as their trademarks, trust of people (Bui and Tran, 2006). The second is the substantial support that they have directly received from the

¹ Their full names currently are the Joint Stock Commercial Bank for Foreign Trade of Vietnam (Vietcombank); Vietnam Bank for Agriculture and Rural Development (Agribank); Vietnam Joint Stock Commercial Bank for Industry and Trade (Vietinbank); and the Bank for Investment and Development of Vietnam (BIDV).

² According to the websites of those SOCBs, the number of branches and transaction offices of Vietcombank, Vietinbank, BIDV and Agribank is 400; 676; 608; and 2,300, respectively.

³ Those entities are private banks, joint stock banks, joint venture banks, foreign banks.

⁴ For example, Vietcombank is the shareholder of 7 other banks, such as, Dong Phuong Commercial Joint-Stock Bank (CJSB), The Military CJSB, SaiGon CJSB for Industry and Trade, Vietnam Export - Import CJSB, etc. Or the BIDV is the shareholder of the Bank for Investment and development of Cambodia, Vietnam Russia Joint-Venture Bank (JVB), Laos Vietnam JVB, VID-Public JVB, etc.

state. This includes the direct injection of state fund to increase their chartered capital, the fund supported from the Central Bank when needed, and the state's settlement of bad debts by using the government's budget or their risk provisions (Huynh, 2005). The third advantage is their easy accesses to cheap sources of capital. Of which, one large source is deposits of state treasuries in their current accounts. Another is from many governmental organisations, insurance companies, ODA projectors which deposit their idle capital before deploying their projects (Pham and Vuong, 2009: 198-9). In addition, it is also easier for SOCBs to issue corporation bonds, as they are assumed to be guaranteed by the government.

Apart from those, some other advantages have come indirectly from the state's support. For example, their advantage of large scale has allowed them to seize opportunities of profitable big deals (Bui and Tran, 2006). Or the state's application of flexible management in some exceptional cases has permitted SOCBs to implement some special transactions.¹ For instance, by lifting the regulation that limits one single loan to one customer not to exceed 15% of the bank's owned capital (just applied to three banks: the BIDV, Vietcombank and Vietinbank for one transaction) the state managed those three banks to pool a large amount of money (1.27 billion USD) to lend to the EVN (Electricity Group of Vietnam) to carry out its special investment projects (Bui and Tran, 2006).

In general, the SOCBs have remained the dominant financial sector in terms of all total asset, capital mobilisation and loans, thanks to the fact that they have had many advantages created by the state patronage. They could enjoy such state support because they are indeed corporations 90, a type of strategic SOEs, which are directly controlled and supported by the Central Government and the State Bank. As will be seen hereunder, they have been

¹ Flexible management is the action that the state (the Government or the State Bank) often uses to allow SOCBs to break the rule in order to fund some necessary projects.

deliberately reformed by the state, whose intention is to keep, rather than to lose, the control of this strategically important financing tool.

Reforming SOCBs: Consolidating before piecemeal equitisation

The Vietnamese SOCBs have been considered strategically important since the beginning of the reform, as they were classified as corporations 90 which had to be maintained under the control of the central state. Therefore, in 1996 all of those four SOCBs were reregistered and restructured under this type of corporation.¹ And even more cautious than other SOEs, the Vietnamese financial sector has been one of the slowest areas being reformed (World Bank, 1995; Shimomoto, 1999). In addition, the financial reform did not start with equitisation, whereas, it has gone along with the consolidation of SOCBs and the encouragement of private financial entities. Thus, although the comparative share of the SOCBs in the financial market has shrunk, their absolute scale has been ceaselessly expanded.

This expansion has largely originated from the state's continuous bailouts for those SOCBs. As highlighted earlier, the SOCBs have had many advantages that mainly derived from the state's support, of which the direct funding has been substantial. For example, from 2001 to June 2005, the state supplied 12 trillion VND (about 700 million USD) to increase those SOCBs' chartered capital, and more than 4.5 trillion VND (about 260 million USD) to settle those banks' bad debts (Huynh, 2005). More importantly, for the long-term settlement of bad debts, the state founded the Debt and Asset Trading Corporation to take over bad debts from the SOCBs (Pham and Vuong, 2009: 201).

¹ Under the authorisation of the Prime Minister, the Governor of the State Bank of Vietnam signed decision 280/QD-NH5 dated 15 October 1996; decisions 285/QD-NH5; 286/QD-NH5; and 287/QD-NH5 all dated 21 September 1996 to respectively set up the Agribank; Incombank (now Vietinbank); Vietcombank; and the BIDV as Corporations 90.

While the state has paid considerable attention to consolidating the system of SOCBs, it has seemed reluctant to equitise this force. Although receiving much advice from international donors and advisers on liberalising the financial sector, the Vietnamese state has still delayed this process significantly.¹ Until the end of 2007, had the first SOCB, Vietcombank, launched its initial public offering (IPO) but with the total offered share of only 6.5% of this bank's chartered capital (Vietcombank, 2007b). Since then, very little share has been further sold. As statistics on 16 October 2010 shows that the state was still holding 90.72% of the share of Vietcombank, the rest was being held by other foreign (2.92%) and domestic (6.36%) shareholders (Vietcombank, 2010: 41) - see chart 4.9a.

The second SOCB having been equitised is Vietinbank, whose equitisation took place about a year later (28 December, 2008), but in the same manner as the case of Vietcombank, as only 4.37% of the total share was sold (Vietinbank, 2008: 28). At the end of 2010, the state was still holding 89.23% of this bank's share (Vietinbank, 2010: 30) - see chart 4.9b.² Thus by the end of 2010, only two from the five SOCBs have been equitised, however, the equitised proportion remains negligible.

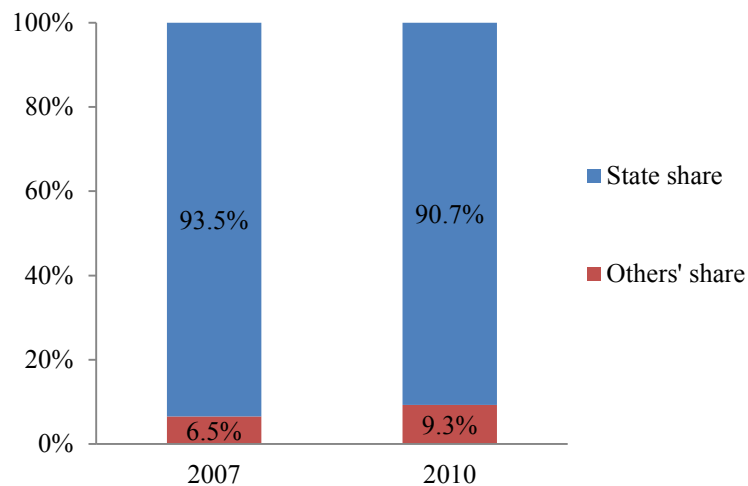
For the future equitisation plan, except for the MHB which was already put on the equitisation schedule (but the state will remain 68.1% of the ownership), no fixed dates for the others to be equitised in the near future (TBKTSG Online, 2011), although the BIDV has prepared for the equitisation process since the beginning of 2007 (BIDV, 2008: 47). In addition, recently the Agribank has been transformed into a 100% state-owned limited liability company, and thus, will not be equitised at least in the near future (Minh Nhat, 2011).

¹ Such advice as 'an effective financial sector is the basis for stable economic growth and poverty reduction' (World Bank, 2001), or 'the participation of foreign countries will probably help to develop a stronger and more effective financial system' (IMF, 2000) was ceaselessly given to Vietnam's state policy-makers (recited from Huynh, 2005).

² The rest of the share was held by the bank's Trade Union (2.41%) and other shareholders (8.36%), but none of them had the share exceeding 1% (Vietinbank, 2010).

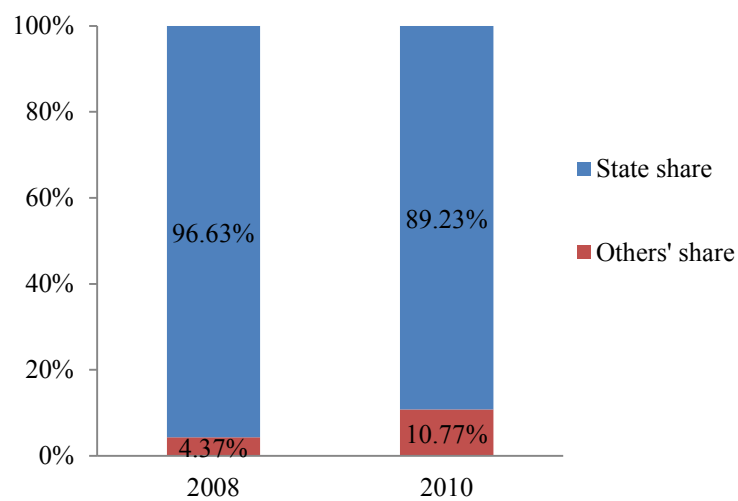
These facts vividly illustrate the slow and prudent status of the SOCB equitisation process in Vietnam, insofar only a very modest proportion of the SOCBs has been equitised. This also illustrates the state's persistence of retaining the control of this force.

Chart 4.9a - Structure of share of Vietcombank in 2007 and 2010



Source: Selected data from Vietcombank's Annual Reports of 2007 and 2010, (Vietcombank, 2007a; 2010).

Chart 4.9b - Structure of share of Vietinbank in 2008 and 2010



Source: Selected data from Vietinbank's Annual Reports of 2008 and 2010, (Vietinbank, 2008; 2010).

Finally, even though the development prospect of (some of) the SOCBs is toward diverse forms of ownership and a wide range of business activities, the dominance of the state in this sector will remain enduring. For example, Vietinbank has been targeted to become a financial group in 2015 with diversified types of ownership, however, even this happens the state will still remain dominant, as the main principle is that ‘the state has to hold at least 51% of the bank’s share’ (Vietinbank, 2010: 8). Thus, the SOCB reform in Vietnam has shown that the Vietnamese state has persistently attempted to consolidate its SOCBs, before cautiously and gradually equitising a small part of this force. This is mainly because the state needs to keep control of this force as a tool to finance its SOEs and strategic investment projects. This implication will be shown hereunder, as the majority of these SOCBs’ large clients are SOEs, despite their customer diversification.

SOCB-SOE close relationships

Although the Vietnamese state has separated policy lending from commercial lending by setting up the Vietnam Bank for Social Policies and Vietnam Development Bank, in reality, the SOCBs have still mainly been used to fund and subsidise the country’s SOEs. This is evidenced in the high percentage of the SOCBs’ loans lent to SOEs. For example, at the end of 2003 the SOCBs’ loans accounted for about 80% of all SOEs’ borrowings (Huynh, 2005). Thus, the SOEs’ operations have been heavily dependent on the SOCBs. This is also the result of the fact that the SOCBs were originally targeted to fund the SOEs. As, for example, highlighted in its Annual Report that the BIDV was historically ‘a Government’s bank that specialised in providing loans for SOEs, especially for corporations established under the Decisions 90/TTg, 91/TTg’ (BIDV, 2005: 37). This explains why the SOEs could borrow large amounts of money from the SOCBs.

Another feature of the SOCBs' operations is that they have aimed more at funding large and centrally-controlled SOEs. For example, the majority of the SOCBs' large clients have been state-owned groups and corporations (SOGCs) (Saga, 2008). Of which, those operating in construction and transportation had more than 90% of their debts belonging to those SOCBs (MOF, 2008b). In addition, with such special customers as the SOGCs, loans have been mainly relied on credit basis rather than mortgage. Very often, powerful government officers manage to arrange the funding process, whether overtly via instructions or covertly via special relations (Saga, 2008; Huynh, 2005). As a result, many SOEs could borrow large loans well exceeding their owned capital. On average the debts are 1.4 times of the owned capital, some SOEs could have particularly high rates of borrowing on owned capital (MOF, 2008b). For instance, the Cienco 5 has a debt of 42 times of its owned capital, the rates applied to the Cienco 1, Lilama are 22.5 and 21.5, respectively (SaigonTimes, 2008). Thus, the state has still had a decisive role in directing the SOCBs to fund the SOEs, as commercially the SOCBs might not have decided to fund some of those SOEs due to their high debt, and thus high risk, levels.

It is understandable that the SOCBs have had to serve SOEs, because, as analysed earlier, the SOCBs have enjoyed many favourable conditions originating from the state's support. Therefore, in return, they have had to implement many targeted programs which have been mainly carried out by SOEs (Huynh, 2005).¹ Although much is still needed to say about the efficiency of those programs and the related banking activities, the contribution of the SOCBs to the funding of the country's large economic development programs has been significant. And though the SOCBs have been the financial sector with relatively high non-performing loans, they have been an important tool for the state to fund its SOEs and

¹ Examples are the Sugar Cane Program, Coffee Program, Cement Program, Steel Program, etc.

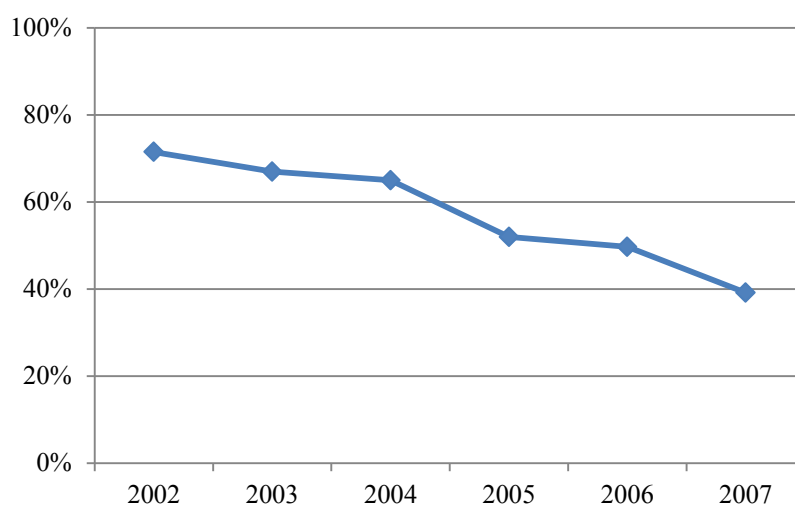
investment projects. As, for example, the above mentioned corporations with unusually high rates of borrowings are those operating in construction of infrastructures, and undertake such big projects as national ways and bridges that demand large amounts of capital. Thus, in economic aspect, this might have lowered the efficiency of the SOCBs, but in terms of strategic development, the SOCBs have been clearly important in funding the state's developmental projects.

The propensity of increasing SOCBs' efficiency

Since the turn of the century there has been a clear decline in the percentages of loans that the SOCBs lend to SOEs. This is partly because the SOCBs have attempted to diversify their clients and focus more on private and foreign-invested enterprises. Another reason is that the SOCBs have had to pay more attention to economic efficiency, as the state has demanded more improvement on their performances when it reduced directed and policy loans assigned to them (Saga, 2008).

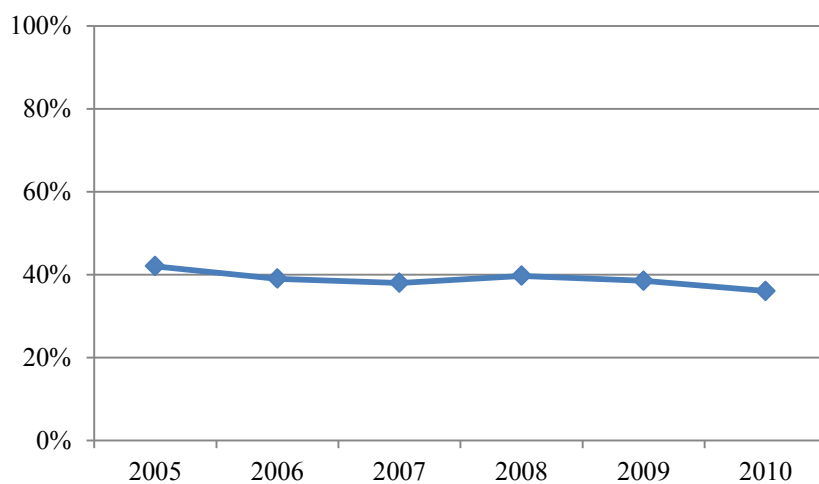
Despite this declining trend, the shares of loans lent to SOEs by SOCBs have remained substantial. For instance, Vietcombank's and BIDV's loans to SOEs have stabilised at around 40% of their total loans (see charts 4.10a and 4.10b), and Vietinbank's proportion of loans to SOEs in 2009 was 33.43%, but went up again to 38.7% in 2010 (Vietinbank, 2010). Meanwhile, although Agribank's percentage of loans to SOEs has been moderate, this bank has constantly granted over 70% of its loans to the rural market, a subsidised target of the government (Bao Trung, 2007). Thus, this decline in the percentage has largely caused by the faster growth of the loans to the non-state clients, not by cutbacks in loans that the SOCBs lent to SOEs. As the actual amount of loans to SOEs has not much decreased, in contrast, has kept increasing in some cases (see chart 4.10c).

Chart 4.10a - Percentage of loans to SOEs of BIDV from 2002-2007



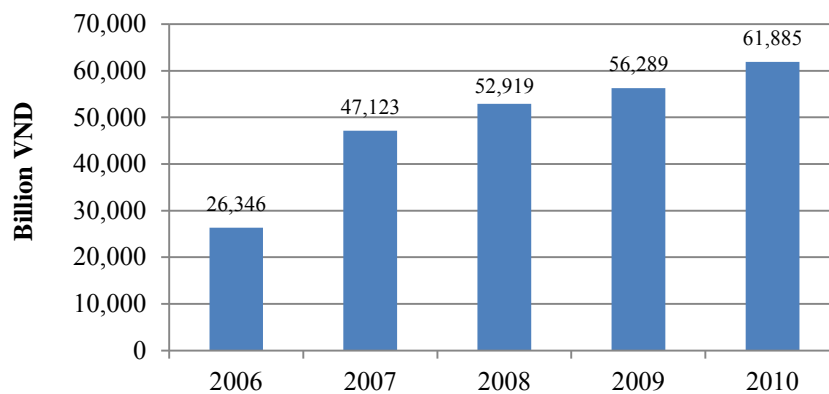
Source: Selected data from Annual Reports of BIDV from 2004-2007, (BIDV, 2004-7).

Chart 4.10b - Vietcombank's percentages of loans to SOEs from 2005-2010



Source: Selected data from Annual Reports of Vietcombank from 2005-2010, (Vietcombank, 2005; 2006; 2007a; 2008; 2009; 2010).

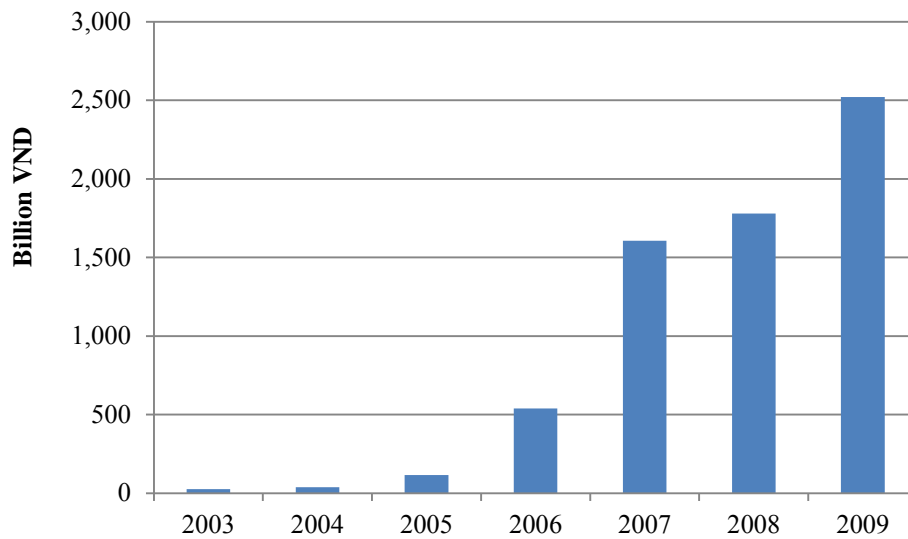
Chart 4.10c - Vietcombank's amounts of loans to SOEs from 2006-2010



Source: Selected data from Annual Reports of Vietcombank from 2006 - 2010, (Vietcombank, 2006; 2007a; 2008; 2009; 2010).

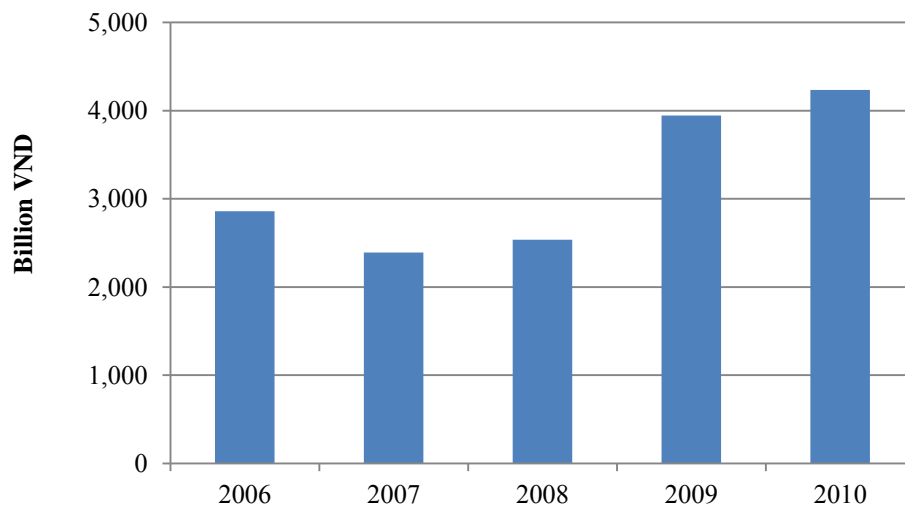
One important recent trend in the operational performance of the SOCBs has been a continuous increase in their efficiency. All SOCBs have improved considerably in terms of all profit, total assets, capital mobilisation and loans. The annual reports of those SOCBs have revealed the positive trend of performance. For example, while the BIDV has increased its annual net profit rather rapidly since 2003, Vietcombank's annual net profit, although not of high growth rates, has stabilised at a high level since 2006 (see chart 4.11a and 4.11b). In addition, the Annual Reports of Vietinbank show that this bank's annual net profit increased by almost 3 times between 2009 and 2010, from 1,284 billion VND in 2009 to 3,414 billion in 2010 (Vietinbank, 2010). Even Agribank, the biggest SOCB of Vietnam, could still increase its profit by 50% in 2006, though not being able to focus most on profit due to a large number of policy and directed loans that it has to serve in the agricultural sector (Bao Trung, 2007). Furthermore, their reports also show that over the past few years all SOCBs have expanded their scale rather rapidly, diversified their banking services significantly, and, more importantly, managed their bad debts under the international standard level (see the Annual Reports of BIDV (2004-2009); Vietcombank (2007-2010); and Vietinbank (2009-2010)).

Chart 4.11a - BIDV's Annual Net Profit 2003-2009



Source: Selected data from BIDV's Annual Reports from 2004 - 2009, (BIDV, 2004-9).

Chart 4.11b - Vietcombank's Annual Net Profits 2006-2010



Source: Selected data from Annual Reports of Vietcombank 2006 - 2010, (Vietcombank, 2006; 2007a; 2008; 2009; 2010).

On the whole, the state has deliberately strengthened its SOCBs, attempted to retain the control of this force and renew it by demanding and helping it to improve its performance, so as this force will continue to act as a strategic financing tool for the economy, even in the coming period of increasingly international competition that the country is about to face. However, besides this major financing tool, the Vietnamese state has also strived to retain all other important financial sources, in order to actively manage the developmental course of the country. One of such sources is the budgetary process, which will be analysed in the coming section.

4.3. Active Control of State Budget

The state budgetary process of Vietnam has been studied by many authors, with the common wisdom that on moving from plan to market, this process has been significantly decentralised, and the Vietnamese state has given considerably more autonomy to the local governments. Regarding the fiscal legal framework of Vietnam, the Law on State Budget was first introduced in 1996 and then amended in 1998, which was then replaced by a new law of 2002 coming into effect from 2004. The latest Law on State Budget has been considered as granting ‘provinces considerable decentralised power over allocation of tax revenues and expenditure responsibilities within their own jurisdictions’ (Hoang and Schroeder, 2010: 698). However, even before this latest law was introduced, the budget policy of Vietnam had already been viewed as ‘highly decentralised’ (Adams, 2003). And recently, the overall process is valued as rather ‘fiscally decentralised at least to the provincial level’ (Bjornestad, 2009: 24). Thus, it seems that Vietnam’s increasing decentralisation process in general and fiscal decentralisation in particular has been in harmony with the general propensity of East

Asia, when the majority of the countries in the region have increasingly adopted many dimensions of decentralisation (see Smoke, 2005).

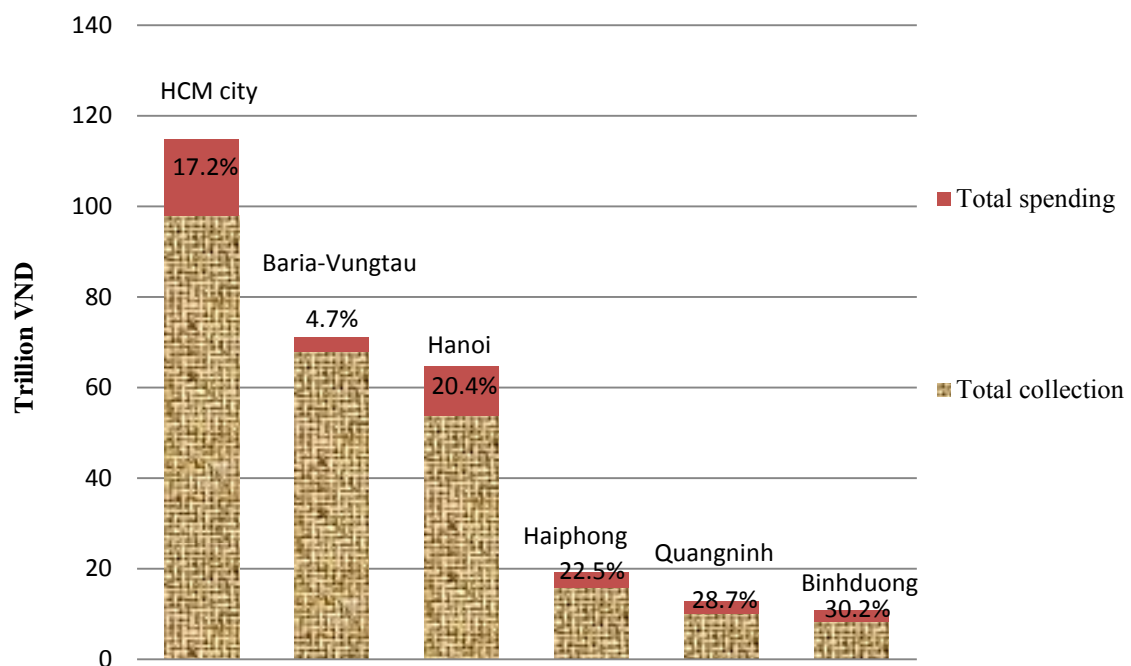
However, when taking a closer look at the case of Vietnam, one may find that although Vietnam has gone along with the rhetoric of increased decentralisation, the Vietnamese central state has effectively retained its power over the local governments, especially in the fiscal aspect. In a political system the decentralisation process cannot be simply seen as processes of one-way transferring power from the central to the local governments. Whereas, in Vietnam, for example, this process was characterised as ‘push and pull in centre-local relations,’ where power is granted at some points of time, then is countermanded at others by the central state, thus making the decentralisation process move forwards and backwards (Wescott, 2003: 29). In a detailed account on fiscal decentralisation in Vietnam, Vo (2005: 12) even provides a counter argument when concludes that ‘fiscal arrangements in Vietnam are in fact highly centralised.’ This, in my opinion, reflects the real nature of the budgetary process in Vietnam, as although the central state has transferred significant power to the local states and consequently increased their mandates and responsibilities over budgetary process, the central state has still retained the control of the largest and most important parts of this process, thus still remained active in its decision making.

Central control of domestic revenues

Although compared to other East Asian countries Vietnam’s local governments have a relative high proportion of the total government expenditure, they still have very little autonomy in deciding revenue and expenditure. As in a strict sense, there are no sub-national taxes in Vietnam, all tax bases and rates have been completely controlled by the central state (Smoke, 2005). This has enabled the central state to take control of a major share of the state

revenues and actively reallocate these financial resources among localities (see charts 4.12a, 4.12b). In addition, as will be seen shortly, the sources of revenue that the central state has decentralised to local authorities are minor. Therefore, although local governments have been granted certain autonomy over their owned sources of revenue, none of them has been able to balance their fiscal status, if only relying on their owned revenue sources (Vo, 2005). As a result, they have been heavily dependent on the central state's reallocation, and have had 'the lowest degree of fiscal autonomy' among all ASEAN countries (Vo, 2005: 23).¹

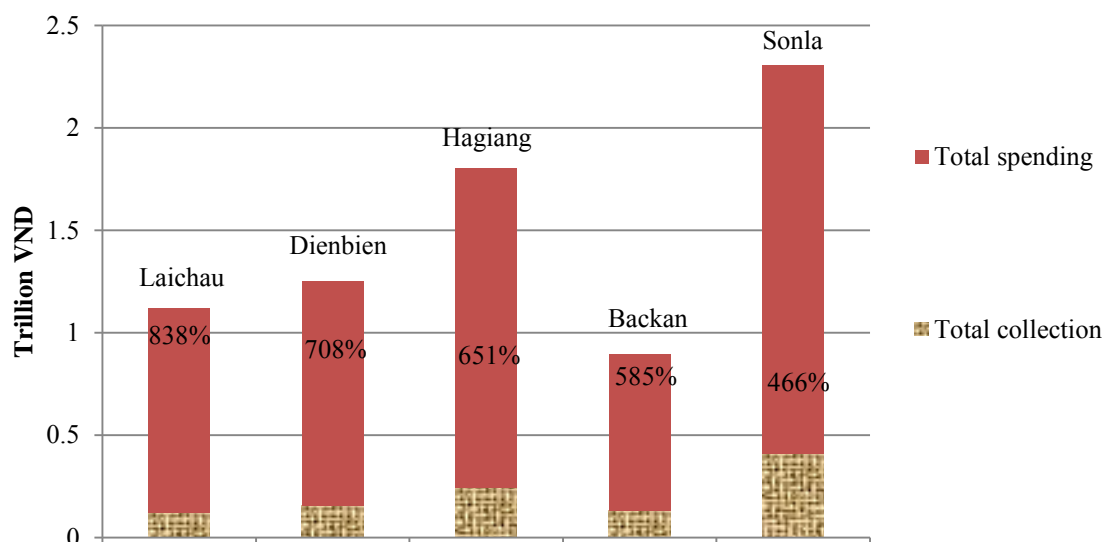
Chart 4.12a - Revenue collection and spending of selected surplus localities in 2008



Source: Selected data from Appendix 4, Resolution 09/2007/QH12 dated 14/11/2007 on allocation of central state budget of 2008, (NA, 2007b).

¹ 'Fiscal autonomy' reflects the degree that the local states can arrange their spending through their local owned source revenue, while the degree of local spending reflects 'fiscal importance,' see more in (Vo, 2005).

Chart 4.12b - Revenue collection and spending of selected deficit localities in 2008



Source: Selected data from Appendix 4, Resolution 09/2007/QH12 dated 14/11/2007 on allocation of central state budget of 2008, (NA, 2007b).

Chart 4.12a shows some localities with very high collected revenues, but they could spend only small proportions of their collection, while chart 4.12b shows a stark contrast status of some deficit localities with very low revenue collection, but they could receive large transfers from the central state to balance their local budgets.

Note: the percentages show the proportions of the total spending compared to the total collection of revenues.

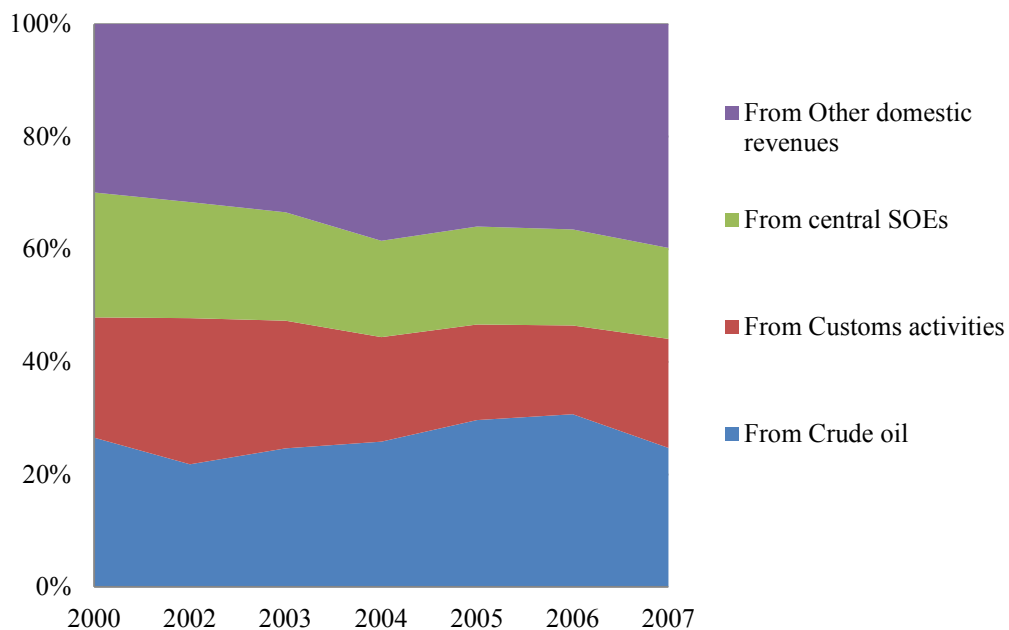
Continuity in central control of main revenue sources

It is noteworthy that the central control of state budget, notably the sources of revenue, has been persistently in continuity rather than change. As even though the new Law on State Budget of 2002 grants local authorities more discretion over their spending plan within the approved budgets, compared to the previous law versions the sources of revenue completely controlled by the central state have remained unchanged (see NA, 1996b; 1998a; 2002).¹ And

¹ Part 1 of article 28 in the Law on State Budget of 1998 and part 1 of article 30 in the Law of 2002 indicates 10 identical sources of revenue entirely controlled by the central state. Those ten sources are also of the same nature of the nine sources indicated in the Law of 1996. The only difference is the division of the two previous types of import-export related taxes (import-export tax and special-consumption tax) into three types of import-export related taxes, namely import-export tax, value added tax and special-consumption tax on imports. This division was due to the introduction of the Law on Value Added Tax in 1997.

despite the division of revenue sources in three categories, of which one is shared between the central and the local states (shared sources), each of the others is exclusively controlled by the central state (central owned sources) or the local states (local owned sources), the central state has retained the control of all major revenue sources (NA, 2002: articles 30, 32). For instance, among the 10 central owned sources, the revenues from crude oil, from customs activities (import, export taxes, value added and special consumption taxes on imported goods) and from central SOEs already take up more than 60% of the total state revenue (see chart 4.13).¹ Thus, although the local governments are authorised to completely control many types of taxes, their owned sources account for only 3% of the total tax revenues (Vo, 2005). This vividly shows the nature of highly centralised control of state revenue in Vietnam.

Chart 4.13 - Some major sources in the structure of state revenues from 2000-2007



Source: Selected data from 'State budget revenue final accounts', (GSO, 2008c).

¹ Those sources have stably accounted for about 25%, 20% and 17% of the total of state revenues, respectively.

Constraints on local states' autonomy

Apart from the centralised control of revenue sources, the central state has still retained substantial control over the spending aspect of the budgetary process, despite considerable autonomy having been given to local authorities. For example, until 2004 local states still had to have their spending plans approved by the NA. Although this requirement has been abandoned, thus, giving more autonomy to the local states in deciding their budget spending, provinces and central cities are still 'subject to minimum expenditure requirements' which limit their total budget (Smoke, 2005: 29). As a result, the central state can control the excessive revenues raised by some rich localities and redistribute to balance the poor areas through balancing transfers. In addition, the minimum expenditure of a province or city can only mainly cover its recurrent expenditure, such as salaries and subsidies for bureaucrats and cadres working in public sectors, operational expenses for local party and state organs which are indeed relatively rigidly prefixed in the given politico-economy system (NA, 1996b; 1998a; 2002). Therefore, local states seem to act merely on behalf of the centre to implement the disbursement of these items of expenditure. And as the budget available for the local developmental investments is rather limited, local authorities always have to seek for support from the central state.¹

Another matter that enables the central state to retain substantial control over developmental investments is the way of classifying investment projects. In Vietnam, an investment project is classified based on its size, area of investment and importance. Since 2009, projects have been divided into four categories, namely, nationally important projects, projects of A-group, B-group, and C-group (those are in descent orders of importance - see

¹ Developmental investment is defined to include investments in building basic infrastructure; promotion of trade, investment, tourism; policy lending; subsidies to public and military service enterprises; interest subsidies, etc. (NA, 1996b; 2002: article 31).

Decree 12/2009/ND-CP). Due to this classification power has been retained mainly at the central level of government as nationally important projects are approved by the NA, the PM will then decide the investments. The central government decides the investment of A-group projects and often hold the position of project investors.¹ Provincial governments are also in the position of deciding the investment of A-group projects but within their local budget capacity (Vietnam Government, 2009a). In reality, the local governments' constraint lies in the condition of "within their local budget capacity," which has made the majority of them incapable of pioneering such projects, as even the biggest local budget beneficiary as Ho Chi Minh City still finds it hard to arrange budget for this type of projects.² This is why the Delegation of National Assembly Deputies of Ho Chi Minh City had to propose to the central government to allow some special mechanisms for Ho Chi Minh City to mobilise capital from other sources, such as treasury bonds, government bonds or private capital to fund their important investment projects (Huynh, 2008).

Moreover, the limited autonomy of the local governments is also illustrated in the inflexibility of managing the allocated capital. For instance, until 2009, local governments had not been allowed to move capital among projects of areas funded by the government bonds. It means that the capital for project X was only used for project X, the local states could not use the idle or surplus capital of project X to fund project Y, even in the case the latter is in urgent

¹ The central state here includes ministries and ministry-level organizations belonging to the central government. In some cases, the central state authorises lower levels to be investors, but even in this situation, the authorised investors are still subordinate to the central state.

² For example, the total allocated budget of Ho Chi Minh City in 2008 was 18 trillion VND, of which, 11 trillion was for recurrent expenditure (spending for education, health care, military, police, national insurance, pension), 3 trillion was to pay the city's debts, the rest of only 4 trillion (about 220 million USD) was for developmental investments. Compared to the huge demand for developmental investments of the city, this allocated budget is indeed limited (for example, only the solving of traffic problems needs about 22 billion USD, or coping with floods requires about 8 billion USD). Even with an A-group project the city finds it hard to manage the capital for, as an A-group project in transportation requires the investment capital from 1.5 trillion VND, in water sewerage from 1 trillion VND (categorised by Decree 12/2009/ND-CP), at the same time other projects waiting for funds have already been in an extremely long queue. Thus, with such allocated budget the local states could only focus on its small-scale projects, and wait for the central state for large-scale ones.

need for capital. If project X was delayed and local states could not disburse the money planned for it within that year, this money would have to be returned to the central budget for reallocation in the next year. When a local government was approved and allocated an amount of money for a number of its projects, it had to use this money for those projects, when needing to have any change to the projects, it has to submit to the central government and wait for its approval (Doan Quy and Xuan Linh, 2009). Acknowledging this rigidity as a waste of time and resources, since 2009 the central state has adjusted to allow local governments to flexibly move capital among projects. If project X is delayed, the local investors can use its capital to fulfil other projects.

In short, the fiscal process in Vietnam in terms of controlling domestic revenue has remained highly centralised, despite a long reform with seemingly increasing decentralisation. Regardless of some discretion to decide the allocated budgets, local states' autonomy has still been largely confined to recurrent expenditure, while the main decision-making power belongs to the central state. In addition to the centralised control of domestic revenue sources, the Vietnamese central state has also retained the management of another important source of capital, the sources of official development assistance (ODA), which will be seen hereunder.

Unique control of ODA sources

In a developing country as Vietnam the management of ODA sources is particularly important, as this type of capital has accounted for a large proportion of the total state budget, and has been an important source of capital for the country's developmental investments.¹ In

¹According to Decree 131/2006/ND-CP by the Vietnamese Government, on issuing the regulations of management and use of official development assistance (ODA) sources, 'ODA means development co-operation activities between the state or government of Vietnam and such donors as foreign governments, bilateral donation organizations, and trans-national or governmental organizations. ODA includes non-refundable ODA; favourable ODA borrowings; and mixed ODA borrowings.'

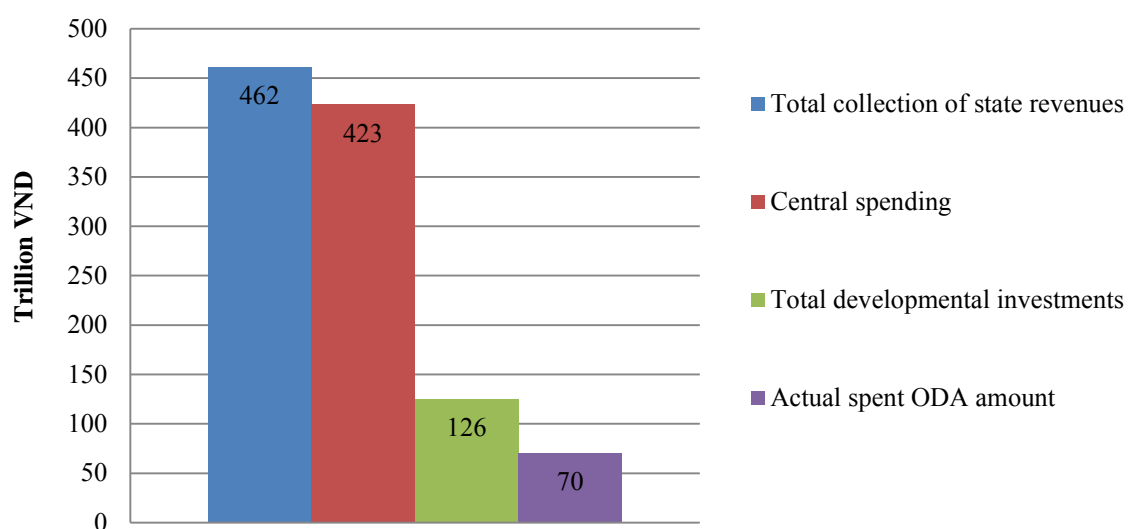
the period from 1993 to 2009, the total of actual spent amount of ODA capital was 22 billion USD out of the total pledged amount of 42.5 billion USD (Thanh Trung, 2009). More importantly, the amount of ODA capital pledged by the donor community has continuously increased. For example, it was about 5 billion USD in 2008 or 2009, while that of 2010 was above 8 billion USD (Anh Quan, 2009). Compared to the total state revenue (e.g. about 20 billion USD in 2009) the importance of ODA sources is clearly observable.¹

In addition, as its name suggests, ODA is mainly aimed at developmental investments, so it is even more important in terms of a source of state budget for this type of investments. In reality, the actual spent amount of ODA has annually accounted for a large proportion of the total developmental investments. For example, in 2010 the total state budget for developmental investments was 125.5 trillion VND, while the actual spent amount of ODA was 3.5 billion USD (about 70 trillion VND) (NA, 2009b; NDHMoney, 2010). Thus ODA source accounted for more than 50% of the total developmental investment capital of the whole country (see chart 4.14). In addition, the total ODA capital yearly pledged by donors is often much higher than the actual spent amount, thus guaranteeing the source of capital available for the coming year's developmental investments. For instance, in 2010 the pledged ODA was over 8 billion USD, which well exceeded the total estimated budget for developmental investments of that year (about 6.4 billion USD). Therefore, ODA is clearly very important to the country's developmental investments, though the actual spent amount has often been much lower than the pledged amount as of some practical and tactical reasons.²

¹ The total state budget collection of 2009 was 390,650 billion VND, that is, roughly 20 billion USD.

² The gap between the actual spent amount of ODA and the pledged amount is partly because of the delay in project preparations and approvals. However, one main cause is that the government always has to limit itself to this source, as the budget deficit of a year is always to be kept down under a certain percentage of the country's GDP for fiscal security reason. In addition, Decree 131/2006/ND-CP, which regulates the management and use of ODA sources, defines clearly the aim of ODA as 'to support the implementation of preferential programs and projects for socioeconomic development of the government,' the central state, thus, is very selective in deciding projects that use this source of capital.

Chart 4.14 - Some components of the state budget of 2010



Source: Selected data from the Resolution on state budget estimations of 2010 and the actual spent amount of ODA of 2010, (NA, 2009; NDHMoney, 2010).

Given the importance of the ODA source, it is worth emphasising here that the central government has retained its absolute right of controlling this source of capital. As Decree 131/2006/ND-CP, which regulates the management and use of ODA sources, indicates that ‘the central government uniformly controls ODA’ in such aspects as ‘strategy, policy, master plan, attraction and use of ODA in each period’ (Vietnam Government, 2006: article 38). Consequently, although local governments can also submit their projects to apply for ODA capital by cooperating with the MPI in the process of setting up annual plans, they cannot directly borrow from this source. Insofar only three largest cities in Vietnam have had accesses to this source of capital. However, they have to re-borrow from the central government after it has borrowed from ODA donors (Vo, 2005). And although local governments may be authorised by the central government to become the investors of some ODA projects in their territories, in reality important ODA projects have always been implemented by the central organisations, such as the Ministry of Transportation, the MARD

and some central SOEs. Thus, ultimately local authorities have actually had very little access to ODA sources.

In general, what has happened in reality illustratively suggests that the Vietnamese central state has persistently managed the majority of the most important sources of revenue. Despite the seemingly increasing autonomy of local states, what has been shown above justifies that the central state has still remained the hegemonic player in the budgetary field, which has allowed it to be relatively active in managing financial resources for developmental projects throughout the country.

Together with the control of SOCBs, the centralised management of state budget process has facilitated the central state to actively lead the developmental programs of the country. Furthermore, with a large force of SOEs in hand, the central government has both financial tool (SOCBs and state budget) and tangible tool (strategic SOEs) to control the developmental process from stem to stern. That is also the general principle of the political economic management in Vietnam that will be seen more closely in the next section.

4.4. State-business Close Relations: the Logic of State Management

The nature of the business force and its relations to the state are among the important aspects of a politico-economic system. In a developmentally-oriented state, these aspects are particularly important, as they will decide the efficiency of the state-led actions. A number of works focusing on these aspects all stress one important feature of a DS as the existence of a force of large enterprises with close reciprocal relations to the state (Johnson, 1982; Amsden, 1989; Wade, 1990; Evans, 1995). In addition, these works point out that the successful East

Asian developmental states mainly relied on the force of large conglomerates which received many privileges from the state and had to carry out many strategic joint projects.

In terms of large businesses and their relations with the state, the situation in Vietnam has relatively been similar to what happened in the East Asian successful developmental states. And as we will see in this section, the Vietnamese state has given many privileges to strategic SOEs, with regard to the state financial support, protection and accesses to natural resources. In return, those SOEs have had to carry out many socioeconomic responsibilities. In other words, they have had to act as a tool for the state to fulfil many developmental programs and undertake urgent tasks whenever necessary.

The state-business nexus

That the special patronage has been given mainly to the SOEs is primarily originated from the very ideology of Marxist Leninism that Vietnam has persistently followed insofar which emphasises the dominant role of the state economic sector in the economy.¹ Consequently, despite numerous reforming actions, the intentionally main purpose of maintaining the state economic sector as an overarching economic force has remained persistently unchanged. The national target of building a dominant state economic sector, in general, or a strong force of strategic SOEs, in particular, has been repeatedly stressed in all Party Congress Resolutions (see Le, 2005). In addition, the intimate state-SOE relationships have even been explicitly expressed by many top leaders. For example, Standing Deputy PM, Nguyen Sinh Hung, emphasised that ‘if not the SOEs, who will the government rely on?’ (Tran, 2010).² Likewise, one message that he repeatedly mentioned at the meeting with more than 100 leaders of the

¹ The state economic sector includes state-owned enterprises (SOEs); the state bank (the central Bank and SOCBs); the national reserve budgets; etc.

² He became the NA President from July, 2011.

SOGCs was that ‘if the groups and corporations are strong, then the government will be strong as well’ (Manh Quan, 2010). This suggests that the SOEs have received substantial supports from the state, both directly and indirectly.

Substantial state bailouts

In terms of financial supports, SOEs in general, and SOGCs in particular, have enjoyed much easier accesses to sources directly from the state or from SOCBs. As pointed out in section 2, SOEs have been mainly served by SOCBs, and, conversely, SOCBs have also mainly served SOEs. As a result, the SOE sector possesses a huge amount of properties. For instance, in 2006 they owned about 70% of total fixed assets, 20% of total society’s investment capital; 50% of state investment capital; 60% of bank loans; and 70% of ODA capital, of which around 80% is under the possession and control of the SOGCs (Vo, 2007). Therefore, the force of SOEs has been continuously strengthened and expanded.

In a more detailed account analysing the relationships between the state, SOCBs and SOEs of Vietnam, Huynh (2005) points out a huge amount of support and subsidies that the SOEs have received from the state. This support was described by Huynh (2005: 6) as embodied in all four types of ‘soft subsidies,’ ‘soft taxation,’ ‘soft credit,’ and ‘soft administrative costs,’ which when being quantified would account for a significant percentage of the country’s GDP.¹ More specifically, the support has ranged from subsidised prices; tax reduction and exemption; subsidised interest; or planned subsidised loans to state direct investments in and loans to SOEs; and state solving of SOEs’ outstanding debts through freezing the debts or debt remission which have totally amounted to a very large scale of support, especially compared to the size of the economy (see table 4.1).

¹ ‘Soft subsidies,’ ‘soft taxation,’ ‘soft credit,’ and ‘soft administrative costs,’ mean the state control in favour of the SOEs in these areas. According to Huynh’s (2005) calculation, the quantified amount of state subsidies over a decade from 1994 would equal about 8 to 10% of the GDP of 2004.

Table 4.1- Some data on state subsidies to SOEs

	Specific periods and supporting activities	From 1995 to 2004
Subsidised prices	Phu My Urea Factory: about VND 550 billion annually	
Soft taxation	From 1996-2000 the state sacrificed VND 2,288 billion in tax exemption and reduction.	
Debt solving	From 2001-2003: only SOCBs solved VND 4,227 billion, while the state did much more.	VND 35-40 trillion
Planned-loan subsidies	VND 2-3 trillion annually through lower interest rates (about 70% of the market commercial rates).	VND 10-15 trillion
Subsidised interest	From 2000-2004: VND 750 billion.	VND 1 trillion
Interest for Freezed Debts	Annually about VND 5 trillion was frozen, for which the interest exemption was about VND 500 billion.	VND 3-5 trillion
Soft Credits	From 1991-2000, the state invested VND 41.5 trillion in SOEs and lent VND 70 trillion to them.	
Total		VND 60-70 trillion, equivalent about 8-10% of GDP of 2004.

Source: Selected data from 'The relations between the state, SOEs and SOCBs in Vietnam', (Huynh, 2005).

Market monopoly or oligopoly

In addition to the financial support, the SOEs have also received a significant scope of protection and many privileges from the state. Protection has been used to aim at boosting infant industries that have been perceived important. These, for instance, include such industries as sugar, steel, and cement industries which were protected by high imported taxes imposed on their competing substitutes (Huynh, 2005). However, due to the commitments to the WTO, this type of protection has been reduced accordingly.

Nonetheless, the most important group of privileges comes from the monopoly or oligopoly over certain markets or resources given to the SOEs. Among the more than 100 current strategic centrally-controlled SOEs, each or some of them has been specialising in an important area of the economy, thus they have been granted oligopoly or monopoly rights over the market of their areas. For example, only one group (Vinacomin) operates in the mining industry; only PetroVietnam is in the oil and gas exploitation and production; only the EVN is in electricity distribution and transmission; or there have been 11 enterprises operating in oil and gasoline retail; and under 10 enterprises in telecommunication.¹ Therefore, like in other East Asian successful developmental states during the period running up to their hey days, market monopoly or oligopoly, together with substantial financial support from the state, has made the force of strategic centrally-controlled large-scale SOEs in Vietnam expand rapidly and become the actual “commanding height” of the economy (see more in chapter 6).

However, in return to this substantial support from the state, the force of SOEs in Vietnam has been largely steered and directed by the central state and mainly responsible for the major tasks of the country’s development course. In reality, the state has been mostly relying on the state economic sector, especially its “iron fists” - the SOGCs, to deploy and implement the master development program and rebalance the macro-economy. This is the main logic of the state-led economic development in Vietnam that will be analysed in more details hereunder.

¹ In some areas, although there are also some small local companies operating in an industry occupied by a state-owned group or corporation, these small and local ones are indeed negligible due to their tiny scale and little support from the state compared to the main SOE in that field.

Relying on strategic SOEs: the logic of Vietnamese state-led development

Besides enjoying favourable conditions from the state, the SOEs, particularly the SOGCs, have been the most important force for the government to start, implement strategic projects, to direct, control and stabilise the economy. This is due, firstly, to the magnitude of this SOE force, which is clearly illustrated in its stable share of over 40% of the annual GDP and high generated revenues (Luu Van, 2010). For example, in 2009 it contributed 42% of GDP; 45% of total state revenues; or even 70% of domestic revenues (BaoNhanDan, 2010; BinhthuanDPI, 2009).¹ Second is the concentration of power and capital in a small number of SOGCs which have been generally the largest enterprises in the economy. Continuously from 2008 to 2010, at least 70 out of the top 100 companies in Vietnam belonged to the SOGCs. More significantly, the first 10 companies were all SOGCs (VNR500, 2008; 2009; 2010).² The third reason is the specialisation of one or a number of such SOGCs in an industry, which allows the SOGCs altogether to have covered almost all important areas of the economy. As a result, the central state has been able to use this force as a multifunction tool in implementing its targeted investment programs, in order to control the structure and pace of an industry's development, as well as stabilising and balancing the development of an industry and the whole economy.

Deploying (strategic) developmental investments

In Vietnam the SOEs, notable the SOGCs, have been the main force to carry out the state investments in the area they operate. Although the development strategy of an industry has

¹ The contribution of those groups and corporations to the state budget of 2009 was 175,406 billion VND, which is 45% of the total state revenue of 390,650 billion VND, or 70% of the domestic revenue of 239,650 billion VND. The domestic revenue is all revenues from all enterprises, that is, the total state revenue subtracting crude oil revenue, taxes from imports and exports and non-refundable aids.

² Except 2008 when Honda Vietnam ranked 10th, the top 16 and 12 companies were all SOGCs in 2009 and 2010, respectively.

always been prepared by the line ministry and SOE(s) of that industry before submitting to the central government for approval, the partial investment projects to fulfil the strategy have often been deployed by the SOE(s) of that area. As ever seen, there is always one or several such SOEs occupying an important area of the economy, they altogether have presented in most of the economy to carry out the short-term and long-term development programs. In addition, it is noteworthy that the government has been rather active in preparing the capital for investing in their projects, either through state budget allocation or loans from its SOCBs.

For example, the development strategy of the oil and gas industry was prepared by PetroVietnam and the MOIT, then, approved by the central government, while the implementation of this strategy has mainly been authorised to PetroVietnam. Starting with oil and gas exploration and exploitation, the operational scope of PetroVietnam has expanded rapidly to other related areas. Insofar, PetroVietnam has implemented a series of projects related to petrolchemical industry, such as oil refinery and oil derivative production projects, which are all crucial to the economy.¹ Although PetroVietnam has to actively manage the additional capital from its profits, borrowings or cooperation, the state has substantially helped this group by reinvesting in this sector or by mobilising capital. The Phu My Urea Fertiliser Factory is one example, where the state allowed PetroVietnam to keep 216 million USD from its would-be-transferred-to-the-state profit to build this factory (Huynh, 2005).

By the same token, the implementation of the electricity industry has been largely relied on the EVN. Up to the present, the EVN has been in charge of the majority of power supply and production. It has been the only group to carry out all large electricity projects, such as

¹ The first oil refinery in Vietnam is Dung Quat Oil Refinery, with investment capital of about 3 billion USD, supplying 30-40% of domestic demand for oil and gasoline. Additionally, PetroVietnam is implementing 3 more oil refineries with the investment capital of 6.2 billion USD; 8 billion USD; and 4 billion USD, respectively. Examples of oil derivatives produced by PetroVietnam are fertilisers (urea); polyester; liquidised petroleum gas; etc. See website of PetroVietnam at: http://www.pvn.vn/?portal=news&page=detail&category_id=42&id=383. Accessed: May 2010.

SonLa hydroelectric plant (the biggest of this type in Southeast Asia). In the period 2006-2010 alone, it invested a total capital of 206,680 billion VND (about 11 billion USD) in 29 projects, with the total capacity of 11,820 MW. Although other enterprises have also participated in generating electricity, in 2009 this group still produced 68% of the total power supply, and remained exclusive in distributing electricity throughout the country (TTXVN, 2009). Furthermore, it is preparing for the first two nuclear power plants in Vietnam (with the total capacity of 4,000MW and the investment of about 11 billion USD) (Duc Cat, 2010). In the same manner, the capital for those projects has been partly arranged by the EVN, but substantially managed by the central government through state budget, loans from the SOCBs, ODA sources, and government bonds (see more in chapter 6).

Thus, it is clear that the SOEs, particularly the SOGCs, have been the “right hand” of the state in materialising its directions and policies by implementing the development projects in specific industries. More importantly, the very source of state-allocated capital has enabled those SOEs to multiply their total investments manifold through borrowings and cooperating with other domestic and international investors. As a result, the total investments of those SOGCs have always accounted for a very large part of the whole economy’s total investments (TBKTSG, 2011). However, as will be seen hereunder, this force has meant to the economy more than just implementing the state’s developmental investment programs.

Stabilising and balancing the economy

In a small, open and developing economy like Vietnam, macroeconomic fluctuation and instability have become rather common. Since the reform began, at least twice the economy has been affected by regional and global crises. Additionally, domestic imbalances have occurred quite often in different scopes of space and seriousness, causing many difficulties,

such as high consumer price indices (CPI) and inflation or shortage of foreign currencies. Moreover, in such a late developing economy like Vietnam, where fiscal and financial institutions are still insufficient in quantity and weak in quality, the state's financial, fiscal and administrative measures in many cases do not have enough impact to solve the real situation. As a result, in addition to those measures, the state has had to use the force of SOEs as an intermediate tool to spread its deliberate intervention in the economy. Insofar, due to its magnitude in the economy and the state active control, this force has proved to be an important and effective tangible tool for the state to govern the economy.

Reining inflation is one task that the SOGCs have often implemented. As this business force has been mainly authorised to implement state investments, its total investments, including state-allocated capital, borrowings and cooperated capital, have always been substantial (TTBKTSG, 2011). As a result, when facing rising inflation, the state will tie state investments by instructing these SOEs to focus merely on most productive projects, and postpone or cut investments on those not urgently needed. This will help to cut a large proportion of the total investment in the economy, and reduce the pressure of increasing inflation as a result. Although there has been a trade-off between growth and inflation, when reining inflation became more important, the government had to give priority to this task. Heretofore, the contribution of the SOGCs in controlling inflation has been rather significant, evidenced twice in 2008 and 2011 (see Lam Nguyen, 2008; Le, 2008; Ha Ly, 2008; TTBKTSG, 2011). Naturally, the state has had to combine a number of fiscal, monetary and administrative measures, but the contribution of the strategic SOEs in controlling inflation has been considerable.

Controlling prices of essential products is another task that the SOEs have largely done. Although Vietnam has moved towards a market economy, the state has still kept control of

prices of many essential products, such as oil, gasoline, electricity, coal, transportation fares, cement, steel, tuition and health-care fees (CAND, 2008). It has been able to do so as it possesses the SOGCs dominating those areas, such as Petrolimex in oil and gasoline retail; EVN in electricity; Vicem (Vietnam Cement Corporation) in cement industry. For example, on average Vietnam's prices of oil and gasoline are still lower than those of the regional countries by 2,300-5,000 VND/litre (about 11-24 cent/litre), or just half the prices in Europe (An Ha, 2011; Minh Huong, 2011). Likewise, the electricity price is the lowest in Southeast Asia (VnEconomy, 2011), and Vietnam's cement is cheaper than that of ASEAN countries by about 30-50% (Dinh Son, 2011). As a result, the state has been able to keep control of prices of those essential products to maintain the competitiveness of the whole economy, besides stabilising the macro-economy, controlling the prices of other related products, and thus reigning inflation as well.

A part from stabilising prices, the state has also been able to subsidise the purchasing prices of a number of products that it encourages. This is particularly important in the case of agricultural products, such as rice and coffee. As those products are seasonal, their prices always go down in the high harvesting time. Therefore, the state has intervened in the market by setting the floor prices for the Food Corporations and Coffee Corporation to buy the majority of the products from farmers, guaranteeing them acceptable profit rates (Truong Giang, 2010; Vietnam Government, 2010b).¹ In general, the SOEs have played an important role in helping the state control the price system of the whole economy, maintaining the overall competitiveness of the economy and subsidising targeted production sectors, and stabilising the market.

¹ For example, the state has attempted to guarantee rice farmers a profit rate of at least 30% by subsidising the purchasing enterprises with interest for buying paddy rice at prices not lower than the floor prices for storage and processing purposes (see Truong Giang, 2010; Vietnam Government, 2010b).

Coping with foreign exchange scarcity is the third important contribution of the SOEs. Due to continuous trade deficits, Vietnam often encounters a shortage of hard foreign currencies. This has been worsened when the inflation rate of the country has remained rather high, making speculation of USD a profitable business. Due to the large size of the SOGCs, their USD reserves are significant. Whenever, the country faces a shortage of USD, the state instructs these SOEs to sell their USD reserves to the SOCBs. Although the size of their USD reserves is not so large compared to the total USD market, this action always creates resonant effects when it couples with the state's other monetary, fiscal and administrative measures (Bao Anh, 2011). One main reason is that it will largely reduce the speculation activity in the economy, as it raises the danger of a decrease in foreign exchange rate, making speculators quickly sell their USD. As a result, this has been an effective measure to reduce the short-term shortage of hard currencies. Insofar, the state has used this measure for a number of times which all proved effective (Doanhnhadatvo, 2011; NDHMoney, 2011; SBV, 2011).

In general, there has been a very close relationship between the Vietnamese state and its SOEs, or SOGCs particularly, by which the state has given substantial support to this enterprise force and in return they have been largely used to implement its developmental programs. In addition, this SOE force has also been a multifunction tool for the state to keep the macroeconomic stability, through its effective contribution to controlling prices, reining inflation and reducing foreign currency scarcity. It is clear that the Vietnamese state has been largely relying on its force of strategic SOEs, more specifically its SOGCs, as the main tool of leading the development course of the economy. This reflects the main development principle in Vietnam as 'economic development as well as economic stabilisation all have to rely on the SOEs,' which have always been reaffirmed in the Government's reports to the Party Central Committee and the National Assembly (Doan Tran, 2010).

Conclusion

This chapter has analysed the three most important constituent reforms of the reform process in Vietnam (SOE, SOCB and budgetary reforms) in which the Vietnamese state has tactically and deliberately embarked on, so as it could both increase the efficiency of SOEs, SOCBs and retain the control of these forces and the budgetary process. Regarding the SOE reform, although the SOE number and the relative share of SOE earnings to GDP have declined considerably, the central state has recentralised the most important parts of this force to create under its direct control a force of strategic giant SOEs in the form of SOGCs. Contrary to the intuitive perception of a state divestment, the Vietnamese state has kept investing substantially in its SOGCs, so as to maintain this force as an always predominant economic sector in the economy. In addition, the SOE reform has also created a dichotomy between the local and the central SOEs, with the former being shrunk and withered away, while the latter being ceaselessly strengthened and expanded. Thus, as far as the power of the central state is concerned the SOE reform has helped it advance rather than retreat.

The same logic can be applied to the case of SOCB reform in which the state has also strengthened its SOCBs and persistently kept the control of this force. Although the share of the SOCBs in the financial market and its proportion of loans to the SOEs have decreased, this force has remained the overarching financial entity in the economy. More importantly, the state has helped this force significantly improve its performance and efficiency, raising the state financial sector's competitiveness before it is fully exposed to international competition. With a stronger force of SOCBs in hand, clearly the state could be more active in controlling the financial source for its developmental purpose.

In addition to the control of a stronger force of SOCBs, the central state has also insisted on retaining the key to the budgetary process. Despite the seemingly increasing decentralisation, the supreme power of the central state in deciding the budgetary allocation and spending has largely unchanged. Although the local states have been granted more authority and autonomy over fiscal matters, their power has still been limited to the ‘tiny’ sources of revenue and the preset recurrent expenditure. Consequently, their local own sources of revenue are so limited that none could manage their budgets without central transfers. Meanwhile, the central state has almost uniquely controlled the developmental investments throughout the economy, deciding both the most important uses of domestic and ODA financial sources.

Given the three most important forces in hand, the central state has been able to actively exercise its power over the course of economic development. It has used the SOCBs and the central state budget to fund its SOEs, notably its SOGCs, to implement the perceived strategically developmental programs. The close state-SOE relation in Vietnam is also reciprocal in the sense that the SOEs have received many privileges from the state to become the locomotive of the economy. In return, they have had to act as the state’s “iron fists” to fulfil multiple functions of economic development and stabilisation. This is also the main principle or the logic of the state-led economic development in Vietnam.

Looking through the lenses of the ideal-typical DS model synthesised in chapter 2, the actions of the Vietnamese state analysed in this chapter provides the reflections of at least seven of the ten points composing the DS model. The developmental orientation of the Vietnamese leadership is illustrated in its persistent attempts at retaining and centralising state control over strategic resources (SOEs, SOCBs and state budget), so the state can actively control and lead the country’s process of economic development and transformation, rather

than simply regulating private market forces. In addition, its successes in maintaining the active control of financial sources and centralising the strategic SOEs have enabled it to manage the private interests more effectively, besides allowing it to actively and selectively develop strategic areas of the economy. The selectivity nature of the Vietnamese state is also embodied in its focus on nurturing only centrally-controlled strategic SOEs in the post-reform era. Moreover, the intimate state-business relations that the Vietnamese state has constructed and maintained illustrates that it has largely intensified its embeddedness, by embedding itself not only in the society as shown in chapter 3, but also in an enlarging and increasingly important business force of the country. This intensified embeddedness of the Vietnamese state has generally enabled it to better manage the civil society. Furthermore, it is the active control of the SOEs, SOCBs and state budget that has actually provided the Vietnamese state with effective tangible (material) tools to master the market, and ultimately given it substantially more autonomy in and capacity for directing the development process. In short, the possession of the above-mentioned features allows us to reaffirm our claim that the Vietnamese state's nature is largely close to the DS model, although the remaining three features (a competent state bureaucracy; a pilot agency; and good performance and legitimacy despite poor human rights) are not clearly illustrated herein.

More importantly, the centralised control of such strategic resources of the economy has enabled the Vietnamese state to strategically lead the development process of the country. In order to know more about the specific roles that the Vietnamese state has played in different economic sectors, and thus being able to assess its contribution to the development and transformation process, the last two chapters will elaborate the role of the state in the two major economic areas, agriculture and industry.

Chapter 5: Transforming Agriculture: the Bold Imprints of the State

One of the most spectacular economic achievements in Vietnam since the reform has observably been in agriculture, including farming and breeding; aquaculture and fishery; and forestry (hereinafter referred to as agriculture). Before 1989 Vietnam was seriously short of food, and had to import rice and other cereals. Very often, the country's leaders had to pay visits to Eastern European countries asking for food aid. 1989 marked the first time Vietnam had rice surplus and started exporting it. Since then the rice output and exported quantity have continuously increased, making Vietnam one of the world-leading rice exporters. In 2009 Vietnam hit a new record of rice exporting in quantity of more than 6 million tons, overtaking India to become the second biggest rice exporter in the world (BBC Vietnamese, 2009).

In terms of agriculture as a whole, recent years have seen not only the development of rice production, but also that of other crops as the diversification of cultivation, and the development of livestock breeding (including aquaculture) as a shift in the agricultural structure. This has helped Vietnam's agriculture to develop both extensively and intensively. In 2010 alone, the export turnover of this sector reached 19.15 billion USD, increased by nearly 22.6% compared to 2009 (V. Phuc, 2010). Given the still small scale of the economy, the development of agriculture has contributed largely to the stabilisation of macro-economy and the improvement of the people's living conditions, besides providing important resources for the course of industrialisation.

This chapter will focus mainly on analysing the transformation process of Vietnam's agriculture since the country's reform, which will help us see the strategic and leading role of the Vietnamese state in this economic sector. Based on a detailed analysis of the main achievements, pros and cons of this sector and the state's roles, this chapter argues that

although the change in the mechanism of agricultural production and distribution in 1989 (the decision of decollectivisation) was most important to the setting of the overall operating mechanism in Vietnam's agriculture, what the state has done since then to coordinate and support the farmers in developing production are equally important and even crucial to the current success of the country's agriculture. Given the distinctive preconditions of Vietnam, such as a peasantry of low education, limited scientific knowledge and backward traditions of agricultural production; the harsh conditions of a monsoon climate; and the low per capita and fragmented farmland (will be elaborated in section 3), an effectively proactive state was an indispensable driver of agricultural production without which the current success would arguably not have happened in the way or at the speed that it could. Furthermore, this chapter will shed some more light on the decollectivisation process, especially the making and issuing of Resolution 10/NQ-TW of 1988 - the most important decision contributing to the radical change in agricultural production and distribution mechanisms, to suggest that this process was not an entirely bottom-up or responsive as conceived before by Fforde and Vylder (1996) or Kerkvliet (2005).

The structure of this chapter consists of four sections. The first two sections focus on the vicissitude of Vietnam's agriculture, with the first delineating the development process from the independence to 1989 - when collectivisation was dismantled, and the second analysing the significant achievements of agriculture since 1989. The third section provides an analysis of the real conditions of Vietnam relating to agricultural production, and highlights that there are so many obstacles to agricultural production that hardly could it develop well spontaneously. The last section identifies the actual roles of the state in coping with the country's obstacles to agricultural production, and transforming this area with many significant achievements. We will in turn look at these themes.

5.1. Vietnam's Agriculture before 1989

For nearly half a century since the independence in 1945, the Vietnamese state and people had struggled with persistent hunger. After the first period of more than a decade following the country's independence, when agricultural production grew well to help improve the people's living conditions, the country entered a period of increasing degrees of collectivisation which did not help to develop production, but, in contrast, deteriorated it badly. As part of the central planning system (CPS), the enduring existence of collectivisation in agriculture was also explained as a need for centralising resources and as a consequence of path dependency, in both material and ideational terms, as highlighted in chapter 3. In addition, the fact that Vietnam inherited little from the French colonial regime, regarding both material and human resources, and the high pressure and influence were imposed on the government of the DRV during the initial time facilitated the choice of collectivisation. And once being selected, it was hard to be changed, even if it exposed numerous failures, because taboos did exist and any deviation from the chosen path would cause serious punishments to the proposer.

Conditions around the independence

Until the country's independence in 1945, Vietnam had remained a semi-feudal and colonised country, the regime that the French applied in colonising Vietnam relying on the maintenance of the feudal landlord class as a tool of exploitation.¹ As a consequence, Vietnam remained an extremely poor and backward agricultural country at the time of independence. The majority of the population (over 90%) inhabited in rural areas, but about 60% did not own any

¹ See about the two exploitation campaigns of the French in the history of Vietnam. Online available at: http://www.lichsvietnam.vn/home.php?option=com_content&task=view&id=367&Itemid=35 and http://www.lichsvietnam.vn/home.php?option=com_content&task=view&Itemid=35&id=371. Accessed: December, 2010.

cultivated land. The peasantry, comprising 97% of the rural population, owned less than 36% of the farmland (Pham and Vuong, 2009: 52). While the landlord class, accounting for only less than 3% of the population, owned the majority of farmland (Boothroyd and Pham, 2000: 10). More seriously, Vietnam was among the countries of lowest cultivation productivity at that time. The average paddy productivity per hectare in the period of 1930-1944 was 1.2 tons, far below that of Thailand of 1.8 tons, and that of Japan of 3.4 tons (Pham and Vuong, 2009: 51). This reality posed a great challenge for the embryonic government in developing agriculture.

To cope with the contemporary tension of serious food shortage, the DRV's government encouraged all economic activities, especially agricultural production, with the motto 'no inch of land to be left uncultivated' (Pham and Vuong, 2009: 51). However, because of the prolonged resistance war against the French, the land reform could not be implemented until 1953 (Boothroyd and Pham, 2000). And despite the "too harsh" method of implementation,¹ the land reform of 1953-1956 was indeed of benefit to the majority of farmers in the DRV, as with which the government could confiscate farmland from the landlord class, and then redistributed over 0.8 million hectares to about 2.1 million peasant households. Thanks to this the following years saw significant increases in agricultural outputs compared to both before and after the independence (Boothroyd and Pham, 2000: chapter 2).

However, as analysed in chapter 3, the five main causes of the enduring existence of the CPS in Vietnam were also applied to the case of agriculture. Although a short time following the land reform, when the peasantry could individually cultivate on their own allocated land,

¹ Not like the landlord class in China, who were opposed to the Chinese government in handing over their land, the majority of the landlord class in Vietnam had followed the revolutionary government since very early time, and voluntarily cooperated with the government. But the government of the DRV still applied too tough measure in depriving their land for reallocation purpose. This was mainly because of the pressure from China. In the implementation of the land reform in the DRV, the state of the DRV had to take the same measure as suggested by the Chinese advisers (see more in Dang and Beresford, 1998: 24-8).

saw a rapid increase in agricultural outputs, this mode of production was soon replaced with collectivisation, the type that was prevailing in the Soviet Union and China. And this process was quickly widened and speeded up after the DRV had signed the Joint Statements of Communist and Workers' Parties at the meetings of International I in 1957 and International II in 1960. Since then the DRV had been compulsory to follow the model of those socialist countries, with collectivisation at the centre of agricultural production (Dang, 2009: 60-3).

Vietnam's agricultural collectivisation

This process occurred in Vietnam throughout the period of 1955-1988, with the first 21 years (1955-1975) in the north (the DRV), and the last 13 years (1976-1988) in the whole unified country. It can be depicted as a process of forming, intensifying and upgrading the system of agricultural cooperatives. The first period (1955-1975) comprises three phases, namely, forming work-exchange teams from 1955-1957; building low-grade cooperatives from 1958-1960; and building high-grade cooperatives from 1961-1975.¹ After the country's reunification, at the Fourth Congress in 1976, the Party decided to apply the process of collectivisation nationwide, meanwhile, continued to increase the scale of cooperatives, considering the district as the basic economic unit (Dang, 2009: 100). In early 1981, Directive 100/CT-TW was issued to allow contracts between cooperatives and households, beginning the decline of collectivisation. This mechanism existed until 1988 before Resolution 10/NQ-TW of April, 1988 took effect, which dismantled most of the cooperatives in Vietnam (for a detailed analysis of this process, see Tran, 1998).

¹ Work-exchange team (*to doi cong*) means that groups of peasant households pooled their production resources, usually labour and equipment, to work together, but they still received output from their own land. For low-grade cooperatives (*hop tac xa cap thap*), farmers had to pool their land together and worked collectively as well, they were distributed according to their labour work points and land contribution. While high-grade cooperatives (*hop tac xa cap cao*) operated in the same manner, the distribution did not consider households' land contribution to the cooperatives. See more in Tran (1998: 12-22) or Boothroyd and Pham (2000: 11-4).

In general, it can be seen that the period of high intensity of collectivisation was started from 1960 in the North, and then widened in the whole country after reunification. In terms of management, this was a process of continuous persuasion and coercion of farmers into scale-enlarging cooperatives. But in terms of agricultural output, this was a period of on-going declines. Therefore, 1959, the last year before the collectivisation process started being on high, was the peak of output, especially in respect of per capita output. On the contrary, 1980 was the year of the lowest per capita output ever (Boothroyd and Pham, 2000: 13). However, like the case of the CPS, despite many challenges and difficulties that collectivisation had brought out, this process prolonged for over two decades before being dismantled (in part and then in full) by the two hard-made decisions of the state.

Dismantling cooperatives - the political challenges

One important point to note is that, 1959, the last year before the process of collectivisation started dominating, was the peak of the 'golden era' (1955-1959) of agricultural production of the DRV (Boothroyd and Pham, 2000: 11). In 1959 the average per capita food production reached 367.2 kilograms, an average annual increase of 11.2% since 1955. While that of 1961 was only 262 kilograms, a drop of nearly 30% compared to the figure of 1959, and that of 1980 was even the least, of only 157 kilograms (Dang, 2009: 148). But no one dared to mention this truth. Like in the Soviet Union, one truth only revealed after Stalin had died was that the agricultural production of that country had never exceeded the level of 1914, but either, none dared to speak the truth, because of the risk of facing serious punishments. The case of Deng Xiao Ping in China was a vivid example of this risk, when he was removed from office and exiled after telling the truth about what was happening to the Chinese People's Commune (Dang, 2009: 35). Thus, in the socialist countries, and Vietnam alike, during the

period before the reform ‘taboos’ did exist and have such a powerful influence that could hardly anyone dare to challenge.

In Vietnam, the fact that severe punishments would be immediately imposed on people violating taboos or deviating from the Party’s directions extinguished all ideas of change. For instance, the immediate stop of the household contract experiment in Haiphong in 1962, and the strict discipline imposed on Kim Ngoc - the provincial party secretary of Vinhphu province - in 1968, when he covertly pioneered contracting production out to individual peasant households, did threaten all others. Former Deputy PM Nguyen Cong Tan, who was also the Minister of Agriculture in the transition of decollectivisation, revealed that ‘dividing, assigning farmland to households, regarding household economy as an entity of production, would immediately be deemed to “destroy” the socialism. Once being alleged to have that sin, even one minister of today would become “jobless” tomorrow’ (Van Chinh, 2008). This suggests that only courageous and also powerful people, in very favourable conditions and moments, might be able to develop and propose some kind of radical change to the system.

Partially dismantling collectivisation - Directive 100-CT/TW

The first important change in agriculture was the issuance of Directive 100-CT/TW in January 1981. This directive was the first step of dismantling the regime of cooperative production, as it omitted the mechanism of working points and the peasant’s income distribution based on working points (Central Secretariat, 1981). According to this directive, some of the work links were assigned to labourers and groups of labourers, cooperatives just retained some of them.¹

Farmland was temporarily divided to labourers, who would then have to pay a set amount of

¹ A work link means a part of the tasks in the agricultural production process. In Vietnam, this process was divided into eight links, namely, the production of seeds; preparation of land; sowing and transplanting; irrigation; fertilisation; tending; pest control; and harvesting. Directive 100-CT/TW permitted cooperatives to entrust a number of those eight links to (groups of) farmers under the contractual basis, but did not admit the entrustment of all eight links (that is called package contract (*khoan trang*)).

products (in kind) to the cooperatives (this amount was set based on the productivity of the previous season). Thanks to this new mechanism, farmers were encouraged to work harder, as they could keep all extra output above the amount paid to the cooperatives. However, the impact of this directive lasted for only about five years, as the amount to be paid to the cooperative was adjusted every year under unreasonably increasing trends (Dang, 2009: 348-52). As a consequence, the share that farmers could keep decreased over time, which, therefore, took away their working momentum.

Admittedly this directive was also a kind of responsive policy or a consequence of the villagers' everyday political behaviour as viewed respectively by Fforde and Vylder (1990) or Kerkvliet (2005) it is noteworthy that the issuance of this directive was the attempt of a number of individuals. Given the historical situation of Vietnam at that time, with the dominance of the sacred cult of the socialist economic model as pointed out earlier, such a new idea was not welcomed by the whole political system. This also explains why such an important policy was just issued under the form of a directive (by the Central Secretariat), and not a higher form as a resolution (by the Politburo or a CPV Plenum). Because only a small number in the political leadership agreed on it, notably the Standing Member of the Central Secretariat Le Thanh Nghi and deputy PM Vo Chi Cong (Dang, 2009: 225). This also explains why the directive had to use the term 'contract to groups of labourers and labourers,' instead of the term 'household contract' as earlier used in some fence-breaking activities (Van Chinh, 2008). Thus, Dang Phong (2009: 226) even regarded this as a 'fence-breaking' activity in Vietnam's policy issuance at that time.

Entirely abolishing collectivisation - Resolution 10-NQ/TW

The second step of dismantling the cooperative system was led by Resolution 10-NQ/TW in April, 1988. At this time, the historical situation was different, as an entire change in the economic model had already been officially announced. Thus, reformist thinking was much more welcomed than before. However, a new dilemma arose in the leadership when they doubted the possible success of a new policy in agriculture, as since 1985 Directive 100-CT/TW had already lost its encouraging impact, and become a production obstacle (Van Chinh, 2008). Again, personal imprints were important in issuing this resolution. In this case, the role of ex-PGS Nguyen Van Linh and ex-NP Vo Chi Cong was decisive (Van Chinh, 2008). As the two highest political leaders, they decided on an entire dismantling of the cooperative mechanism and the re-perception of households as a positive economic entity of the economy. As a result, resolution 10-NQ/TW allowed division of farmland to households for autonomous production, with tax as the only duty, the rest of the output would be traded according to mutual agreements without any imposition of prices and quantities (Dang, 2009: 348-52). This resolution has actually opened up a new era for Vietnam's agricultural production and transformation. And as analysed in chapter 3, personal importance to the issuance of breakthrough policies was clear in Vietnam, the case of agriculture again supports this point of argument.

In summary, the agricultural development process of Vietnam since 1945 has had some important turning points, such as the beginning of the collectivisation process in 1955, the partial and entire dismantling of it in 1981 and 1988. Given the historical conditions of Vietnam at that time, the admission of the failure of the contemporary production mechanism was not easy. Therefore, any big change in mechanisms was very difficult to occur. Thus, like

the radical change in the economic model analysed in chapter 3, the change in the direction of agriculture also required the role of a number of committed leaders, who bravely started the change and dared to be accountable for it.

5.2. Agricultural Transformation since 1989

Allegedly, Vietnam has still remained an agricultural country, with agricultural production currently accounting for about 20% of the country's GDP, and absorbing above 50% of the country's labour force (GSO, 2009a). Although the state had long stressed industrialisation, since the reform Vietnam has followed the same path as other East Asian countries when paying 'special attention to agricultural and rural development' (Boothroyd and Pham, 2000: 9). This does not mean that the state did not care about the development of agriculture before the reform, but the mechanism of the command economy, with collectivisation in agriculture, failed to motivate the people to work. Additionally, despite stressing agriculture as a top priority in the resolutions of both the Fourth and Fifth Congresses (1976 and 1982), this was only formal, as in reality, the state always gave the first priority to industry (CPV, 1986a: 703; Tran, 1998).

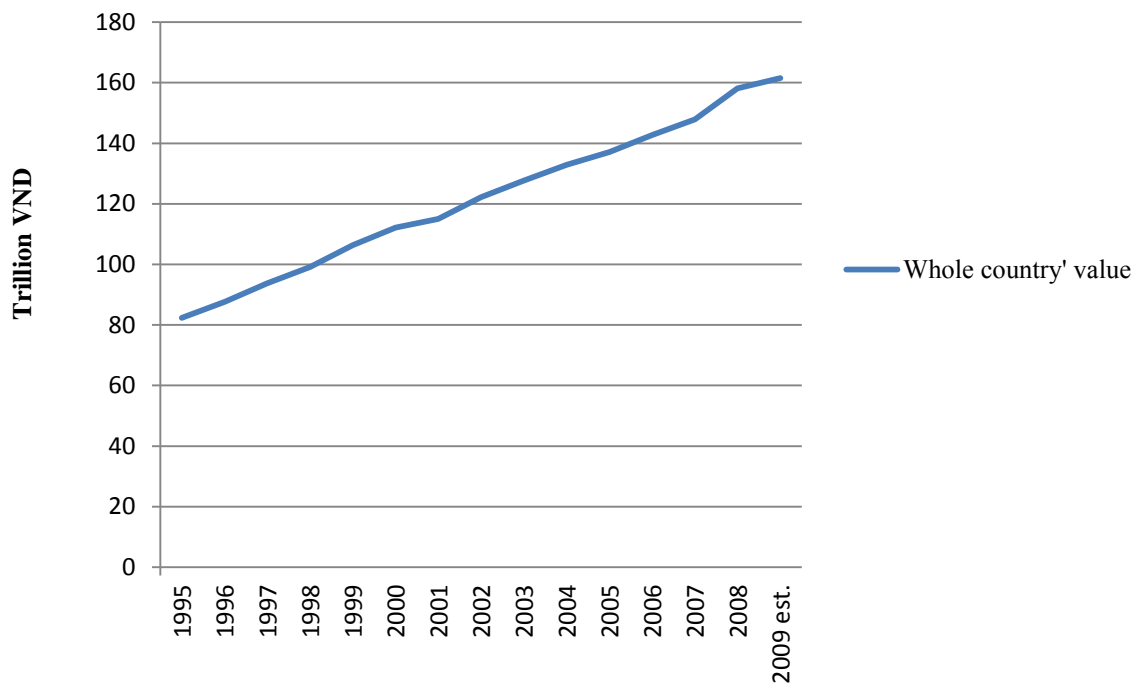
Only since the Sixth Congress of 1986, agriculture has been given "real" (as opposed to "formal") priority and concretised as one of the three macro-economic programs (CPV, 1986a).¹ However, the state's special effort since 1986 only started taking effect, when coupling with the radical change of 1988 with Resolution 10-NQ/TW which dismantled cooperatives, accepted household economy and market mechanisms. And 1989 was considered a 'turning year' with many important achievements of Vietnam's economy, of

¹ These are Food, Consumer Goods and Export Goods programs.

which agriculture marked surplus for the first time (Dang, 2009: 384). Over 15 years since 1995 the real value of agriculture has doubled (see chart 5.1). This has not only supplied the people with enough, diverse and better products, but has also contributed largely to the country's export turnover.

This section reviews the transformation of Vietnam's agriculture since 1989 to highlight the most important achievements. The first subsection analyses the production of grains (mainly rice and maize). The second looks at the diversification of crops in attempting to increase the value of this sector. The last subsection pays special attention to the structural change in agriculture towards a more breeding proportion.

Chart 5.1 - Total value of agricultural production in 1994 price

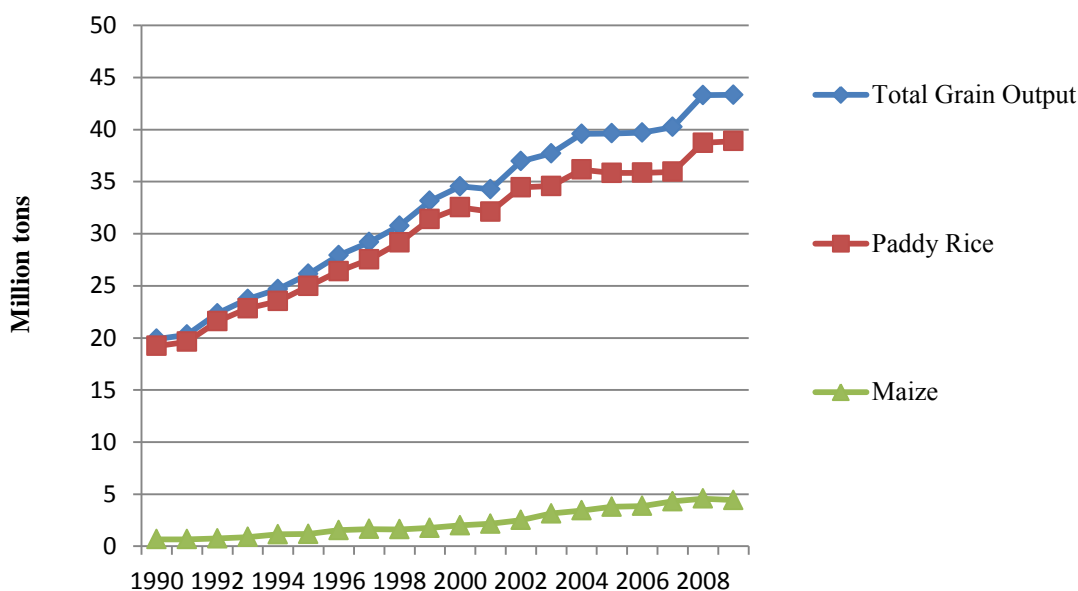


Source: Selected data from 'Output value of agriculture at constant 1994 prices by province', (GSO, 2009e).

Successful grain (rice and maize) production

Undeniably the turn from a food importer to a second biggest world exporter of rice has been one of the most spectacular changes in Vietnam, due to its substantial impact on stabilising and encouraging the whole economic system. As highlighted above, important to this turn is the change in the production mechanism regulated by Resolution 10-NQ/TW which had an immediate impact and was considered as ‘a big push’ for Vietnam’s agriculture (Huu Tho, 2008). Additionally, the persistent and effective state intervention has enabled Vietnam to double its rice output since then (see chart 5.2). The success in rice cultivation has satisfied the domestic increasing demand, both quantitatively and qualitatively, besides contributing an increasing amount to the total export turnover.¹

Chart 5.2 - Grain outputs 1990 - 2009

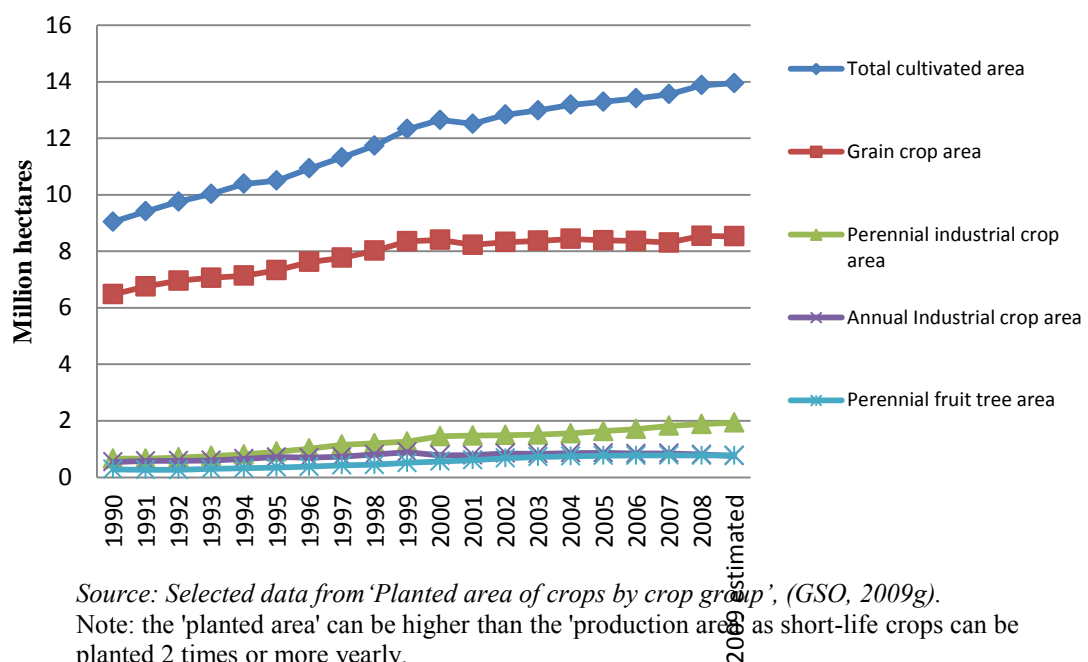


Source: Selected data from 'Planted area and production of cereals', (GSO, 2009f).

¹ In 2010 Vietnam's export of rice hit another record in both quantity and value (2009 was a recorded year when rice exported exceeded 6 million tons – (BBC Vietnamese, 2009)). In 2010 about 6.88 million tons of rice was exported, generating a turnover of USD 3.23 billion (Y Nhung, 2010).

Vietnam appears to have natural advantages over rice cultivation as possessing two large fertile deltas, the Red River Delta (RRD) and Mekong River Delta (MRD), with the cultivated area of 0.8 and 2.5 million hectares, respectively.¹ Statistics shows that Vietnam currently has approximate 14 million hectares of cultivated land, including annual and perennial crops, of which the area under grain crops (mainly rice and maize) is about 8.5 million hectares (GSO, 2009a). Compared to 1990, the total cultivated land of 2009 increased by 54%, while the area under grain crops increased by only 32%. However, chart 5.3 also shows that the area for grain crops has levelled off since 1999 at around 8.5 million hectares.² This illustrates that Vietnam has reached the limit to grain cultivated area and, thus, could no longer rely on extensive cultivation to increase the grain output and value (Doan, 2011).

Chart 5.3 - Planted areas by crop 1990-2009



¹ Only about 25% of Vietnam's land is deltas which are divided by mountains and hills. The two major deltas, the Red River delta and the Mekong River delta have total areas of 1.67 and 4 million hectares, respectively, of which the cultivated areas are as shown in the text. Along the Central coast of the country there are a chain of small deltas from Thanhhoa to Phanthiet provinces with a total area of 1.5 million hectares.

² It is important to note that the production area for grains was only 4.1 million hectares in 2009, but these crops can be planted 2 or 3 times a year, this made the grain cultivated area of this year be 8.5 million hectares.

As a result, it is important for Vietnam to develop its cultivation intensively. As will be seen in section 4, the Vietnamese state has successfully improved intensive cultivation, and overcome the natural limit to arable area which prevents the country from continually enlarging its cultivation land. Therefore, although the area under grains has remained stable since 1999, the output of grains has increased considerably, from 33 million tons in 1999 to 43.3 million tons in 2009, an increase of 32% (see chart 5.2). This is apparently caused by the improvement of crop productivity. More importantly, that many higher-quality types of grain have been introduced and substituted for the low-quality ones has significantly contributed to the increase of the value of grains (NCAP, 2005).

In short, the grain cultivation of Vietnam, particularly rice, has been significantly successful, despite the natural limit to the arable area. However, in addition to this strategic cash crop, diversification of crops has also been considered in Vietnam to increase the value of cultivation as a whole. Hereunder, we will see how Vietnam has dealt with this matter.

Diversifying crops

The diversification of crops was a concern of the Vietnamese state, more specifically, the CPV, from the very early stage. The Eighth Congress Resolution of 1996 pointed out the measures (e.g. lending loans to farmers to largely develop coffee) and set a high target for cultivation diversification, as doubling the perennial crop area of 1994 and increasing the share of industrial crops in total cultivation to 45% in 2000 (CPV, 1996). Thus, special attention has been continuously paid to the work of developing the types of cash crop that Vietnam has advantages. Hitherto, apart from rice, five other types of crop have been identified as strategic crops, namely coffee, rubber, cashew, black pepper, and tea (Vinanet, 2010a). These crops have currently been rather stable in terms of cultivated area, productivity,

output and export markets. Specifically, Vietnam has been in the first place of exporting some of those. For instance, over the past four years, Vietnam has been the biggest exporter of cashew, which has approximately earned a billion USD every year (Y Nhung, 2010).¹ Similarly, for many years Vietnam has remained the largest exporter of black pepper, and supplied about 60% of the world's consumption, although the export turnover is just around 400 million USD yearly (Vinanet, 2010b).²

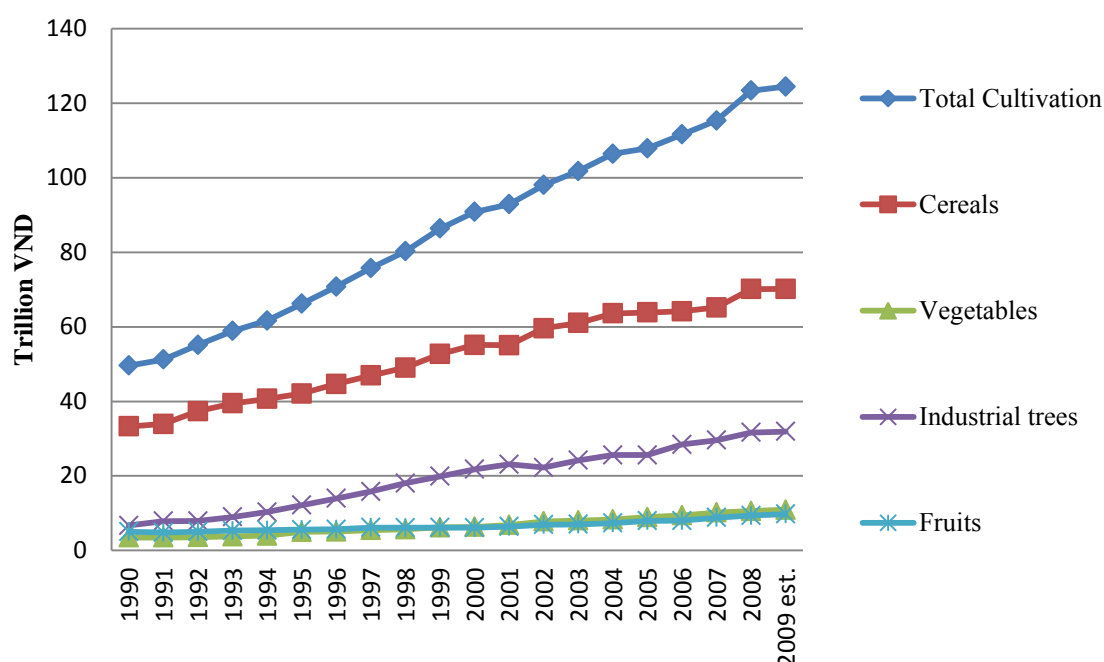
Apart from cashew and black pepper, the other types of crop, although not leading the world market, have generated even larger export revenues. Vietnam's coffee, for example, stably ranking second among the world exporters, has constantly contributed an annual turnover of over 1.5 billion USD (Y Nhung, 2010). And even not taking the lead in the world market, Vietnam's rubber has often generated second largest source of export revenues for the country (2.23 billion USD in 2010 (Y Nhung, 2010)). In a lesser degree of importance, Vietnam's tea is always the fifth world supplier and has stably earned around 200 million USD annually (Vneconomy, 2010b).

In general, the successful development of these five strategic crops has contributed to the growth of industrial crops' value by almost 5 times over 20 years since 1990 (see chart 5.4). Together with rice, these strategic crops have generated an important source of foreign currencies, contributing significantly to the country's industrialisation. And as will be seen in the last section, to gain these achievements the state's directions and supporting policies have been crucial.

¹ The figure was 1.14 billion USD in 2010 (Y Nhung, 2010).

² The figure was 421 million USD in 2010 (Vinanet, 2010b).

Chart 5.4 - Value of cultivated crops in 1994 price



Source: Selected data from 'Output value of cultivation at constant 1994 prices by crop group', (GSO, 2009h).

However, the diversification of crops has not been confined to those strategic crops. In recent years, an increasing number of new types of crop have been introduced and grown in different parts of the country (Rauhoaquavietnam, 2010). This has been continuously implemented as an attempt at increasing the value of agricultural production, raising the ratio of land use, and changing the farmers' habit of sole rice cultivation.

Based on the soil features and climate conditions of each area, the most suitable crops for the area have been planted and developed under the state direction and support. For example, with Decision 150/2005/QĐ-TTg of 2005, the government has adjusted the national production structure of agriculture, forestry and fishery (Vietnam Government, 2005), and with Decision 52/2007/QĐ-BNN of 2007 the government approved the master plan for developing vegetables, fruits, flowers and bonsais to the year 2010, prospect to 2020 (MARD,

2007). This master plan identifies three large fruit production regions in Vietnam, namely, the MRD (380,000 hectares), the Southeast region (150,000 hectares), and the Mountainous North (230,000 hectares) (BaoCongThuong, 2010). In addition, this decision also pointed out supporting policies and mechanisms to implement the master plan, such as intensifying agricultural promotion activities, supplying medium- and long-term loans from the Bank for Social Policies to farmers to improve their gardens and apply advanced cultivation techniques (MARD, 2007).

This diversification process has been done either through the upgrading of the traditionally high-value crops or the creating and spreading of new highly-economic ones. Such traditionally high-quality fruits as Nam Roi grapefruit, dragon fruit, durian, HoaLoc mango, mangosteen have been increasingly developed in Southwest provinces, or as Hung Yen longan, Thieu lychee have been widely planted in the North. In addition, many new types of crops, such as cucumber, cabbage, melon, tomato, and mushroom have been grown in different areas, under a strict quality-control system for exporting (MARD, 2007). As a result, besides satisfying the increasing domestic demand, a large quantity of fruit and vegetable has been exported, earning significant foreign currencies for the country. In 2010 Vietnam earned 471 million USD from export of fruits and vegetables, and the targeted turnover for 2015 is 1 billion USD (Son Nhung, 2011).

As far as forestry is concerned, this sector has been increasingly important for the whole economy. This is evidenced in the contribution of the forest products to the export turnover. Heretofore, processed forest products, notably wood and wood products, have been one important source of exports for Vietnam. These products (especially furniture) have had very high growth rates and values. In 2010, for instance, their export turnover was 3.4 billion USD, an increase of 31.2% in value compared to 2009 (Y Nhung, 2010). The government has also

had a master plan for sustainably developing this group of products, with a set target of 7 billion USD of export revenue in 2020 (Vietnam Government, 2007c; Y Nhung, 2010). This apparently shows that forestry has been an important branch of the country's agriculture. More importantly, this status will continue to be so in the coming years, as the potential for sustainable development of Vietnam's forestry remains substantial for both exports and domestic uses (Vietnam Government, 1998b; TTXVN, 2007).¹

In short, the diversification of crops over the past 20 years has contributed significantly to the rapid increase in Vietnam's cultivation. In 1990, the value of cereals (33.3 trillion VND) still accounted for two thirds of the total cultivation value (49.6 trillion VND), while in 2009, the cereals' share shrank to only 56% of the total - excluding forestry (see chart 5.4). More importantly, this has created new opportunities for Vietnam's cultivation to grow further, especially when the production of rice, the most advantageous crop, is reaching its limit. However, besides cultivation, livestock husbandry is another important branch of agriculture, how it has developed will be seen hereunder.

Enhancing livestock production

The transformation of Vietnam's livestock breeding has been very rapid,² making it an important and strategic part of Vietnam's agricultural production, and an illustration of the government's successful policy. The development of this area started when the government issued Resolution 03/2000/NQ-CP on the development of farm economy (Vietnam Government, 2000; Le, P.H, 2009). This has also changed the Vietnamese peasantry's old

¹ For sustainable development of forestry, the Vietnamese state has had a national plan of newly planting 5 million hectares of forest since as early as 1997, guaranteeing the sustainable development of forestry based on 16.24 million hectares planned for this sector, see more in Resolution 08/1997-QH10 (NA, 1997), or Decision 661/QD-TTg (Vietnam Government, 1998b).

² In here livestock breeding (as a whole) refers to all of aquaculture breeding (aquiculture breeding and catching) and non-aquaculture breeding (including the breeding of cattle, poultry and other types of animal).

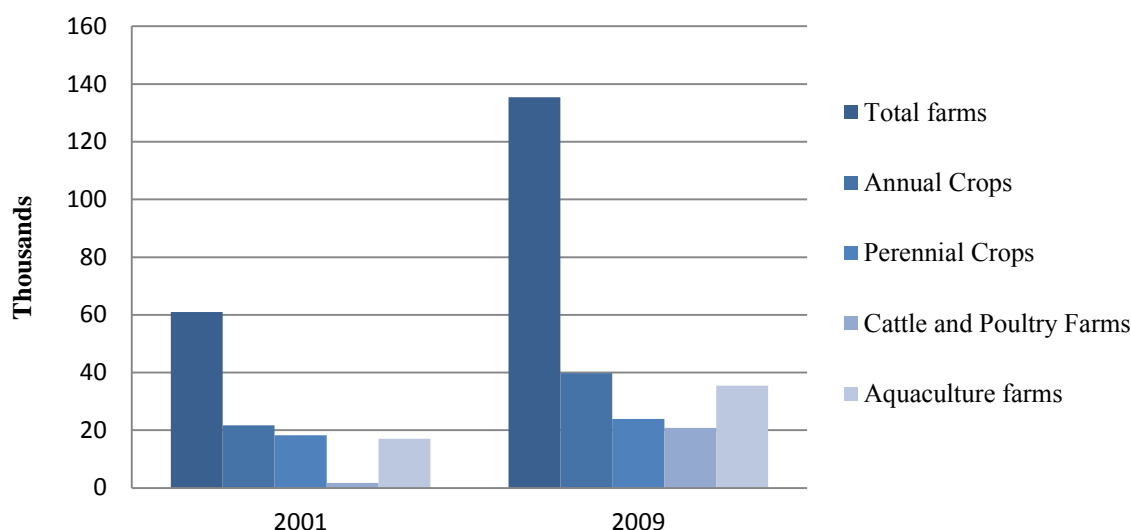
perception which regards livestock breeding just as a kind of saving, or a supplementary activity to cultivation. As a result, livestock breeding has recently become a main type of business for many agricultural households, and has grown rapidly in both the number and size of farms (Le, P.H., 2009). Chart 5.5 shows that, between 2001 and 2009, the total number of farms increased by more than twice, of which the number of non-aquaculture farms has rocketed from 1,761 in 2001 to 20,809 in 2009 - a twelvefold increase.¹ Simultaneously, the number of aquaculture farms has also doubled. This has made the total value of livestock breeding (as a whole) increase rapidly.

Regarding non-aquaculture breeding alone, the value of this sector has increased significantly, by 3.3 times over 20 years since 1990, of which cattle raising (mainly pig and cow) has risen fastest and accounted for the largest share (see chart 5.6). In 2008 non-aquaculture breeding accounted for 27% of the total value of cultivation and non-aquaculture breeding (Le, D.N., 2009). Viewing this sector as a strategic area of agriculture, the government has always regarded the task of increasing its proportion in the agricultural structure as an important target of the agricultural development. As a result, besides other supportive policies, in 2008 the government issued a decision approving the strategy for developing livestock breeding to the year 2020, which set the target for the proportion of livestock breeding of 2010, 2015, and 2020 at 32%, 38%, and 42%, respectively (Vietnam Government, 2008e). The decision also set out nine detailed programs for developing pig, chicken, cow, etc. so that provinces with favourable conditions can select to develop a number of them (Part IV of the strategy). In addition, with this strategy, the state has also applied a number of supporting measures, such as providing complete infrastructure, partly subsidised

¹ The statistics of 2001 shows that there were 2,240 farms of mixed activities (livestock breeding and cultivating), this type of farms did not appear in the statistics of 2009. Thus probably the actual number of farms classified as livestock breeding in 2001 (under the 2009's standards of classification) would be higher than 1,761.

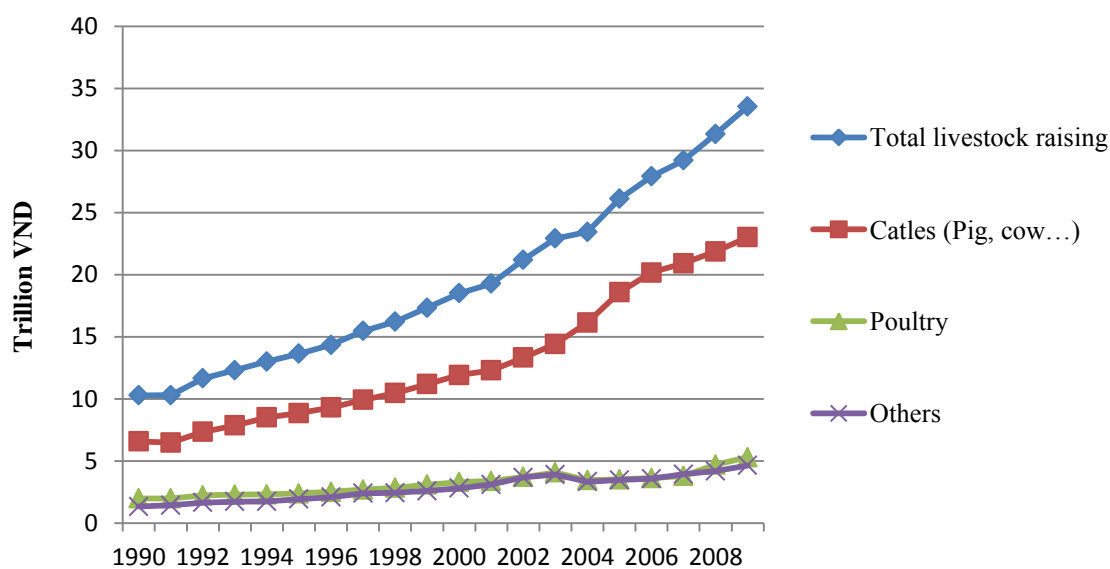
loans from the Bank for Social Policies, technical support from state experts and specialists to farmers undertaking those investment activities.

Chart 5.5 - Number of farms by activity in 2001 and 2009



Source: Selected data from 'Basic situation of farm', (GSO, 2001) and 'Number of farms in 2009 by kind of activity and by province', (SGO, 2009d).

Chart 5. 6 - Value of non-aquaculture livestock raising in 1994 price

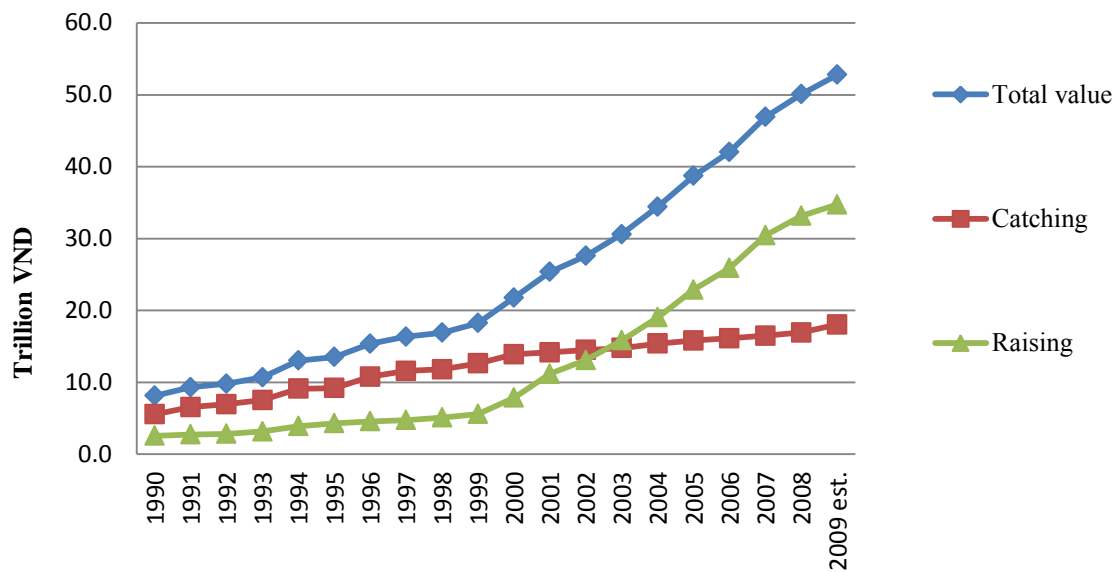


Source: Selected data from 'Output value of livestock at constant 1994 prices by kind of animal and product', (GSO, 2009i).

In terms of aquaculture, over the last ten years have seen not only a steady increase in the total value, but also a shift from catching to raising, with a trend towards a dominant proportion of aquaculture raising (see chart 5.7). This is important to the long-term development of this area, as natural catching might get saturated more easily, but raised aquaculture will help to keep this sector growing. In addition, by raising aquaculture, Vietnam could focus on products that the country has most potential and advantages. Heretofore, those products are shrimps, Tra fish and Basa fish, whose export turnovers have continuously risen (Vinanet, 2010c). Together with squid, octopus and a variety of mollusc, they have made the value of this sector increase by 6.5 times over 20 years, of which raised aquaculture increase by 13.5 times (see chart 5.7).

The above achievements were the result of a continuously supporting process from the state. Following Resolution 03/2000/NQ-CP on the development of farm economy highlighted earlier, the government had Decision 132/2001/QD-TTg regulating the financial mechanisms for the implementation of the program for developing rural transportation, infrastructure for aquatic raising and infrastructure for rural production villages (Vietnam Government, 2001a), and the MOF issued Circular 79/2001/TT-BTC guiding this decision (MOF, 2001c) with which the central state lent interest-free loans to local governments to develop such infrastructures. This has largely improved the rural transportation systems and, more importantly, the irrigation systems, facilitating the establishment of aquaculture farms throughout the country, especially in the two deltas. In addition, as will be seen in section 4, the close and immediate support from the MARD's functional organs in terms of animal raising and protecting techniques and introduction of new types of raised animals have been essential to those outcomes.

Chart 5.7 - Aquaculture value in 1994 price



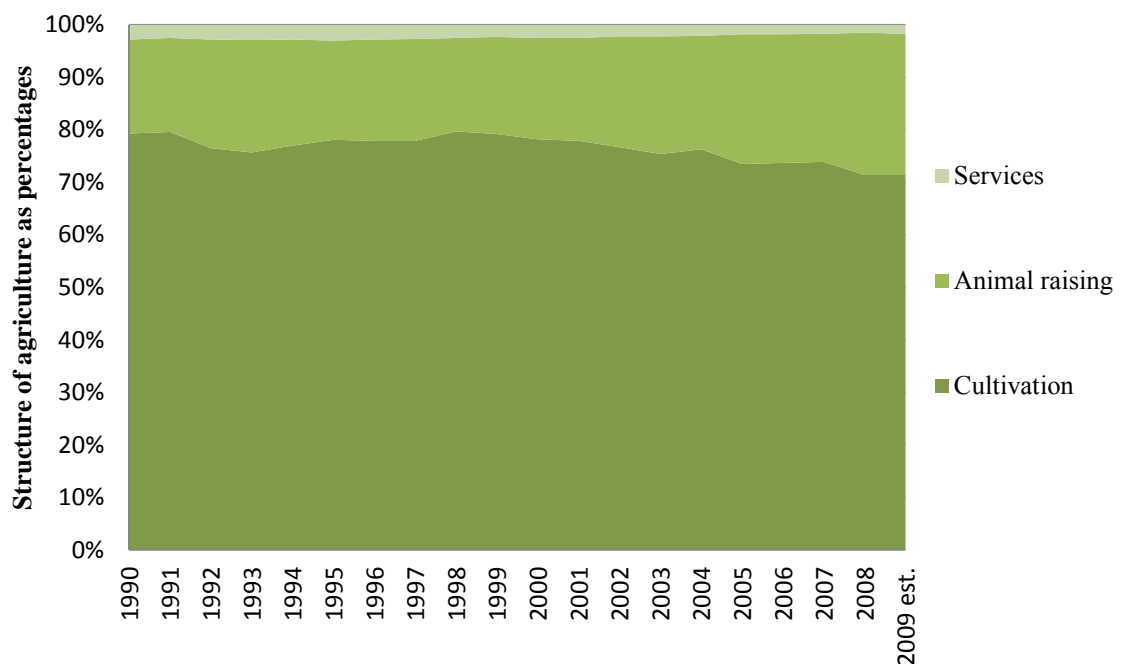
Source: Selected data from 'Gross output of fishing at constant 1994 prices by kinds of activity', (GSO, 2009k).

While the products of non-aquaculture breeding have mainly been supplied to the domestic market, Vietnam's sea and aquatic production (aquaculture) has largely been aimed at international market. This sector has stably contributed to the country's export turnover a significantly large and continuously increasing amount. For example, the figure of 2010 was 4.94 billion USD, an increase of 16.3% compared to 2009 (Y Nhung, 2010). The three most important products of this group are shrimps, Tra fish and Basa fish, which have been the most strategic aquatic types being raised in Vietnam. More importantly, their values have continuously set up new records over the years (Y Nhung, 2010). Like rice, coffee, or rubber in cultivation, these types of aquaculture have become the most strategic aquatic products of Vietnam. As a result, for sustainable development of this economic sector, the state recently had the strategy for developing Vietnam's aquaculture to the year 2020, which has aimed at increasing the international competitiveness of Vietnam's aquatic products, with targeted export turnover of 8-9 billion USD in 2020, accounting for 30-35% of total agricultural

production, and most importantly, raised aquaculture is targeted to constitute 65-70% of the total output (Vietnam Government, 2010a).

In short, although not yet being able to overtake cultivation, the development of livestock breeding (as a whole) in recent years has gained important achievements. The growth speed of this sector has even been faster than that of cultivation (Le, D.N., 2009). However, due to the fact that cultivation has also grown rapidly over this period, the shift towards a more livestock breeding structure in agriculture has not been very clear. Despite this, aquaculture breeding has shown its significant importance to the country's export revenues, meanwhile, non-aquaculture breeding proportion has kept increasing steadily. More importantly, like in cultivation, in livestock breeding there has also been a propensity of diversifying raised animals besides strategic types. This enables agricultural production to continue growing even when the development of cultivation gets saturated.

Chart 5.8 - Proportion of agricultural production (excluding fishery and forestry)



Source: Selected data from 'Output value of agriculture at current prices by kind of activity', (GSO, 2009I).

On the whole, the transformation of Vietnam's agriculture since 1989 shows that from a country of agriculture of mainly rice cultivation, with livestock breeding being regarded just as a kind of side business, over a period of 20 years, Vietnam has achieved a more balanced structure of agriculture, with high-growth rates in all branches. The rapid growth of agriculture, fishery and forestry has both satisfied the domestic market and generated substantial export revenues for the industrialisation process. More importantly, moving towards a more rational structure of agriculture, with a diverse range of advantageous products, will better guarantee a sustainable development path for the country's agriculture.

However, hiding behind these achievements have been many difficulties that the Vietnamese state has had to overcome. In the last two sections we will see numerous obstacles to Vietnam's agricultural development and the way the Vietnamese state has manage to deal with them.

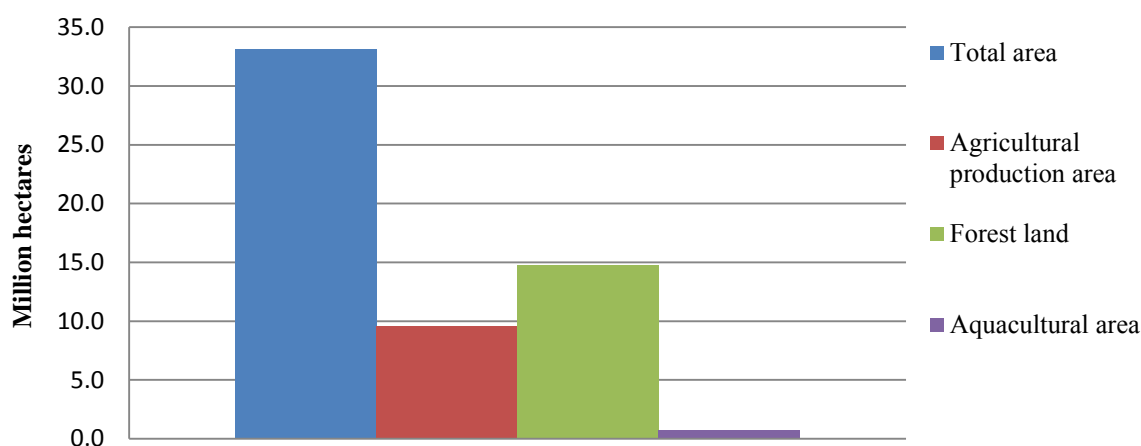
5.3. Vietnam's Conditions and Agricultural Development

That Vietnam is currently among the world-leading food exporters makes it inducible that Vietnam enjoys very favourable natural and social conditions for agriculture. However, this is only partly true. As will be shown in the following pages, despite a potential natural advantage Vietnam has also faced many difficulties in coping with its distinctive situations, such as a harsh monsoon climate, the lack of scientific knowledge of the peasantry, and the fragmented farmland. And unbelievably that Vietnam is among the countries of lowest average cultivated land per capita in the world (Anh Hong, 2007). These unsupportive conditions altogether make it impossible for Vietnam to succeed in agriculture if only relying on the farmers' spontaneous actions.

Impediments to agricultural development

Vietnam is among the countries of lowest per capita area of agricultural production land (APL).¹ Although the total area of APL is about 9.6 and of rice cultivation is nearly 4.1 million hectares (GSO, 2009a), because of a large population of approximate 86 million in 2009 (Vu, 2009), the per capita APL of Vietnam is only 0.11 hectare which is far below the world's average figure of around 0.24 hectare (Zhouying and Ying, 2009). More adversely, the per capita farmland varies largely from one place to another (GSO, 2007). For example, in many communes in the North and the Centre, the average farmland is only about 300 square meters per farmer, while this figure in MRD is about tenfold. This is an apparent obstacle to Vietnam's agricultural development, especially to extensive development.

Chart 5.9 - Vietnam's land uses as of 1st January, 2009



Source: Selected data from 'Current condition of land use (as of 1 January 2009)', (GSO, 2009a).

In addition, the fact that Vietnam's farmland has been divided into too many small plots has posed another challenge to the organisation and management of agricultural production. Due to the failure of the CPS and collectivisation, farmland has been divided and distributed

¹ It is necessary to distinguish the two terms "agricultural land" and "agricultural production land." Agricultural land is supposed to include agricultural production land, forestry land, aquaculture land, salt production land, and lands for other purposes of agricultural production (GSO, 2007: 74 - note 5).

to farming households. Given the low per capita area of APL and the large percentage of population working in agriculture, the household's average size of farmland in Vietnam is indeed very small. Table 5.1 shows that above 60% of agricultural households had less than 0.5 hectare of APL. In 2006 only 17.8% of the households had farmland of more than 1 hectare. Further exacerbating the matter is the fact that when farmland was first divided to farmers according to the Law on Land of 1993, for equality purpose all farmland was divided into small plots and each household was allocated tens of them. For example, the average number of farmland plots per household in Haiduong province was 10.3 (Nguyen, 2008), in Hatay was from 20 to 25 (Quoc Thinh, 2007). This made the already small area of farmland be divided into too many small plots, of which some plots are even less than ten square meters. This poses another difficulty for the country's agricultural development, notably in terms of coordination and mechanisation.

However, this disadvantage has been gradually reduced by the government's program of exchanging and merging farmland among farmers to make larger fields, in order to apply mechanisation, advanced sciences to production, and avoid resource waste (Dinh Tang, 2009).

Table 5.1 - Structure of agricultural households by size of APL (%)

	1994	2001	2006
Households not using land	1.15	4.16	4.05
Households with below 0.5 ha	70.91	64.34	61.02
Households with 0.5 ha to 1 ha	16.23	16.42	17.14
Households with more than 1 ha	11.71	15.08	17.80

Source: Selected data from (GSO, 2007: 43).

The limits of natural endowments

In terms of climate, although situated in the tropical and temperate zone, which should normally be favourable for agricultural production, Vietnam's climate is more diverse due to its S-shaped long strip of territory and complicated topography. Stretching long from north to south, together with different mountainous terrains, makes Vietnam's climate vary significantly across regions.¹

Regarding agricultural production, Vietnam suffers from a considerably large number of natural disasters such as storms, floods and droughts every year (AseanVietnam2010, 2009a). In addition, the country, especially the North, is usually affected by the northeast monsoon in winter, which is bitterly cold, and the very hot and dry southwest monsoon in summer. Such monsoons directly affect the crops and their productivity. Thus avoiding their consequences, which requires the issuing of a rational cultivation timetable for each region and each season, is very important to agriculture. Moreover, such tropical climate, with high temperature and humidity, is also an ideal environment for insects, pests and plant, animal diseases to flourish. Therefore, preventing them from harming cultivated crops and raised animals is another challenge. Consequently, minimising the bad effects of the complicated climate is crucial to Vietnam's agricultural production.

One more feature of Vietnam's weather that does not support cultivation is the uneven rainfall over the year time. Although Vietnam has an annual rainfall of the world's average level, the rainfall varies largely in both temporal and spatial terms (Nguyen N.D, 2010). For example, the rainfall in rainy season accounts for 75-85% of the annual total, while it rarely rains in dry season, and is even rainless in some months. In addition, in some places annual rainfalls are usually 3 or even 5 times the figures of other areas. This results in the uneven

¹ Vietnam lies between the 23°23' and 8°27' North latitudes.

allocation of surface water flows across time and regions. The surface water flow in rainy season takes up 70-80% of the annual capacity, while in dry season that of one month is only 1-2% of the annual total (Nguyen N.D, 2010). This has caused significant difficulties to the farming work, as some places are flooded while others may face severe droughts. Even one place may face floods in rainy season and droughts in dry season. In this situation the state intervention in terms of making the irrigation system has become very important, not only in respect of supporting the existing cultivated areas, but also in reclaiming and transforming uncultivable into cultivable land (see the next section).

The peasantry and low productivity

Concerning the peasantry, although the country has gained significant achievements in illiteracy eradication, the level of knowledge of the peasantry remains rather low and is the lowest in the society. Before 1945 more than 90% of Vietnam's population was illiterate (Pham and Vuong, 2009: 52). Since the independence, the state has paid great attention to education, regarding ignorance as one of the three enemies, besides hunger and foreign enemies (Tran, 2008). Compared to the world's rate of illiteracy of 20%, the figure of Vietnam of 2% in 2008 is rather pleasing and commendable (Tien Dung, 2009).

Despite significant reduction in the illiterate rate of the whole population, peasants and rural citizens still remain the people of lowest education. In 2008 Vietnam had about 1.7 million illiterate people, and the majority of them lived in the Northern mountainous, the Central highlands, and Mekong delta areas (Tien Dung, 2008; 2009). For instance, An Giang, a granary of Vietnam, still has 13% of the population aged from 15 being illiterate, which is well above the national rate of illiteracy (Ly, 2010). Meanwhile, the percentage of trained and skilled labour in agricultural sector is also very limited. Table 5.2 shows the structure of

agricultural labour in terms of qualification, indicating that most of the labour force remained untrained. Even the two main deltas are in the same situation, the 2006 figure of the RRD was 88.23%, of the MRD was 95%, and the national average was 91.84% (GSO, 2007: 203-5). This is another obvious challenge to Vietnam agriculture.

Table 5.2 - Structure of workable people in labouring age by qualification in agriculture (%)

	2001	2006	<i>Change (2001-2006)</i>
No training and no degree or certificate	93.82	91.84	-1.98
Primary, technical worker	2.28	2.97	0.69
Secondary, vocational level	2.45	2.97	0.52
College	0.77	1.14	0.37
University and higher	0.69	1.08	0.40

Source: Selected from (GSO, 2007: 203).

Consequently, if without support from the central and local authorities, Vietnam's farmers would mainly rely on their traditional experience for production. Because limited knowledge would definitely prevent them from spontaneously assessing scientific information, advanced techniques and modern technologies. Traditional experience would become the main way of production that they could use. However, it is noteworthy here that despite a long history of rice cultivation, the majority of the peasantry's experience was backward. This is also the legacy of an already obsolete feudal agricultural country being colonised by the French over nearly one century with an exhaustingly exploitative policy.¹

¹ The French did also paid attention to developing agriculture, especially after World War I, but mainly focusing on rubber plantations for the benefit of France. See more in the two exploitation campaigns of the French in the history of Vietnam. Online available at (accessed: July 2010): http://www.lichsvietnam.vn/home.php?option=com_content&task=view&id=367&Itemid=35 and http://www.lichsvietnam.vn/home.php?option=com_content&task=view&Itemid=35&id=371.

For instance, the Vietnamese people have a long tradition of using the lunar calendar, which does not reflect the right weather cycle over the year. Thus, the cultivation timing used to be irrational, which resulted in heavy damages to crops due to such tough phenomena of the country's weather as storms, cold northeast or hot and dry southwest monsoons.¹ In addition, such experience as that 'the deeper the ploughing, the better the crop' has been proved unscientific, as rice roots are shallow and cannot absorb fertilisers at too deep in the soil. Or the conventional perception that the order of importance in agriculture was 'first: water, second: fertiliser, third: diligence, and fourth: the kind of crop' must be changed when the greatly apparent advantages of new crops have been seen.² More seriously is the misperception and misuse of fertilisers and pesticides that have caused many damages and losses to crops (see, for example, PPD, 2011 or Phuong Nguyen, 2008). Those examples are only among a myriad of backward agricultural habits that have been changed and continue to be changed, thanks to the state's persistent and intensive introduction of scientific information and techniques to the peasantry (see next section).

In general, at first glance, many observers may think that Vietnam is a country of very advantageous conditions for agricultural production. The possession of two large fertile arable deltas in a tropical climate, together with the existence of a large cheap source of labour, makes outside observers infer that Vietnam is blessed with naturally agricultural advantages. However, as analysed earlier, this is not totally true. Indeed, the country has been facing many challenges in developing its agriculture. Given the very low level of per capita area of fragmented APL, the incompetent peasantry and the complicated weather condition, if could

¹ If crops (especially rice) face northeast or southwest monsoons when bearing fruits, the productivity will be heavily affected as a consequence of high grainlessness. Therefore, in Vietnam, notably in the North, cultivation of rice must strictly follow the most rational timetable, which is made annually by the authorities.

² The experience was often created in the form of sayings, originally in Vietnamese as '...cày sâu tốt lúa,' or 'nhất nước, nhì phân, tam cần, tứ giống,' which are irrational but not easy to be changed.

not relying on intensive production with an effectively leading role of the state, Vietnam's agriculture would be far from the current success. How has the Vietnamese state succeeded in overcoming those specific unsupportive conditions? The last section will give the answer by scrutinising the state's effective functions and activities in coping with those obstacles.

5.4. The Indispensable Role of the State in Agricultural Development

Despite many principal constraints in the natural, historical and social conditions to agricultural development, Hitherto Vietnam has still obtained significant achievements in this economic area. This contradiction strongly supports the argument that the state has played a pivotal role in leading the peasantry to overcome the development obstacles to arrive at the current success. As will be seen shortly, in overcoming the production obstacles the state has been active, proactive and effective in investing in, directing and implementing the course of agricultural production. On the one hand, the state's policies and activities have aimed at maximising the agricultural production area to enlarge production extensively. On the other hand, many of the policies and activities have aimed at increasing the productivity and value of production by intensive methods of production. The latter has specially been concentrated on, when extensive production got saturated.

This section will analyse three most important factors in agricultural success that have been continuously and effectively implemented by the Vietnamese state, more specifically, by the Ministry of Agriculture and Rural Development (MARD) which can be seen as the pilot agency of Vietnam, albeit only in agriculture. The first and foremost condition deciding the success of cultivation and aquaculture is irrigation (watering and draining). Though Vietnam has a dense network of rivers and a long coastal line, in its natural condition this network does

not support agricultural production effectively, as irregular weather changes often cause droughts and floods at different times and places (ASEANVietnam2010, 2009b; Nguyen D.N., 2010). Therefore, building an effective system of irrigation is important not only to enlarging the arable area, but also to increasing productivity. The impacts of Vietnam's irrigation system will be seen in the first subsection.

In addition, raising productivity can largely be implemented through both the rationalisation of production methods and the creation of high quality types of crops and farm animals. While the former helps to increase productivity and reduce costs by applying more scientific production methods, the latter enables the total output value to increase by making both higher-productivity and higher-value products. Moreover, the latter also helps to create pest and disease-resistant types of crop and animal, guaranteeing the success of production, reducing the costs and protecting environment (i.e. a less use of pesticides). Those themes will be the focuses of the second and third subsections.

Effective state-invested irrigation system

One of the most important investments of the Vietnamese state in agriculture has been its attempts at constructing an effective irrigation system. This task has been a main investment focus of the state from very early on. The CPV in 1986 stressed that 'irrigation is the best measure' of improving agriculture, and instructed in details the investment and use of the irrigation system (CPV, 1986c). Currently, Vietnam has 75 large- and medium-size irrigation networks and numerous small-size ones, with the total assets of around 60 trillion VND (approximate 4 billion USD) – excluding the value of land and the labour contributed by the

peasantry (Nguyen D.N., 2010).¹ This system has guaranteed the watering for more than 84% of the rice-cultivated area and above 1 million hectares of vegetable, industrial and fruit trees, besides adequately draining water off for the majority of cultivated area. In addition, the system has helped to reclaim and transform 1.6 million hectares of sour or alum land into arable land, apart from protecting 70 thousand hectares of cultivated land from saltwater (Nguyen D.N., 2010). Moreover, the dyke system has not only helped to protect people, crops and animals from storms and floods, but also helped to transform the MRD from an uncertain one-season rice-cultivated area into high-productivity two-season rice-cultivated fields. Thus, the irrigation system has not only supplied sufficient water and drained off adequately and timely for cultivation, but also helped to enlarge cultivated area by both increasing the ratio of land use and reclaiming uncultivated area.

Apart from improving cultivation, the irrigation system has also benefited other fields of production. Aquaculture, for instance, has been effectively served by this system, especially, when many irrigation networks have been built under the consideration of developing aquaculture besides cultivation (Nguyen D.N., 2010). Heretofore the irrigation system has been able to actively serve about 70% of aquaculture (Dang, 2008). This has largely contributed to the rapid growth of aquaculture. For example, the development of many coastal areas into the regions specialising in shrimp farming has enabled the export turnover of shrimps to set up new records every year (Y Nhung, 2010). From another angle, the contribution of irrigation to the success of aquaculture has become more clearly, as wherever the irrigation network did not work well aquaculture production faced serious failure due to animal epidemics caused by polluted water (Ha Yen, 2003). In addition to all of these

¹ This is calculated from the investments of the state on irrigation projects. In Vietnam, the majority of irrigation projects, notably large ones, have been invested by the state. In addition, every year the state mobilises farmers to contribute labour to the repairing of existing systems or to the building new systems. The land used for those systems is considered public land which is uniformly managed by the state.

impacts, the irrigation system has effectively supplied fresh water to the majority of the people (Nguyen D.N., 2010).

As watering and draining is one of the most important tasks in agriculture (including aquaculture and forestry), and due to the complexity of Vietnam's topography and the uneven rainfall over time and space (see section 3), the role of an effective irrigation system becomes decisive to the success of cultivation and aquaculture. Almost all farmers asked appreciated the contribution of the irrigation system.¹ For example, they explained that rice is a crop that requires a large amount of water during its lifetime. Previously, before having the effective irrigation systems, it was very hard to get water for watering the high-land areas. Therefore, in those areas, very often they could not get enough water for rice (and other crops) to grow. This consequently affected the productivity. More specially, many of those areas could not be cultivated in dry season. Meanwhile, many low-land areas were always flooded in rainy season, and had to leave uncultivated as well. The continuously improved irrigation system has not only helped to increase the rice productivity, thanks to the timely and adequate supply and drain of water, but also helped to bring the majority of the arable land into full play. In addition, moving water (thanks to the circulation) has helped to clear and clean acid, salt or alkaline for the soil, which is very important for cultivation and aquaculture. Moreover, now they could get water and drain off more easily, so could save significant time and labour, and could, therefore, lower the production costs. As a result, the effective irrigation system has substantially contributed to the growth of cultivation and aquaculture, both extensively and intensively.

¹ I conducted a number of interviews on the impacts of the state activities in agriculture with farmers in Haiphong, Thaibinh, Namdinh (Red River Delta), and Cantho, Angiang, Dongthap (Mekong River Delta), who have directly faced the production conditions in their everyday farming work, and who could compare the conditions now and in the past.

In general, constructing an effective irrigation system has been arguably one of the greatest contributions of the state to the transformation of agriculture. The usefulness of the system has been clearly manifested in the success of crop cultivation and aquatic production. However, its contribution has not been constrained to solely some strategic types of crop, as farmers growing other types of crop have also benefited largely from this system. Therefore, the effective operation of the irrigation system has also opened up opportunities for developing other new types of crop, contributing to the process of crop and livestock diversification, which ultimately results in an increase in the value of agricultural production.

State-led creation and introduction of better-quality crops and animals

As the area of agricultural production cannot be ceaselessly enlarged, the state's actions in increasing productivity by creating new types of crop and farm animal become more significant. Hitherto the majority of the new types of crop and animal has been produced, introduced and applied by the state, through its professional organ called the National Centre for Agriculture Promotion (NCAP), which is managed under the MARD (NCAP, 2005).¹ This task has also been crucial to the current success of agriculture, as it has multiple benefits. The impacts are not only on a rise in productivity or the crop value, but, more importantly, on a higher degree of certainty of production success and on lowering production costs as well. Hereunder we will see the case of rice cultivation.

Apparently, higher-productivity types of rice seeds will contribute to the rise in rice output. However, some types of new rice, which is not of higher productivity but of higher quality, might not help to increase productivity or output, but will ultimately increase the

¹ This centre is in charge of promoting all agriculture, forestry and aquaculture. It was founded by the merging of the centre for agricultural promotion (including forest promotion) and the centre for aquaculture promotion. See more in its portal at: <http://www.khuyennongvn.gov.vn/a-tochuc/a-httpkhuyennong>. Accessed: 12 May, 2010.

output value. Heretofore Vietnam has continuously created and introduced both high-productivity and high-value types of rice. For instance, the success in producing F1 hybrid rice seeds has supplied seeds for a large part of the country, substituting for a considerable quantity of imported seeds (NCAP, 2005). This has allowed Vietnam to actively produce many types of high-productivity rice seeds, such as Nhi Uu 838; Nhi Uu 63, Bac Uu 64, D Uu 527 at only half price compared to importing (NCAP, 2005: 6). Likewise, the program promoting the cultivation of hybrid cash rice has helped to increase the rice output by about 0.7 million tons per year. In addition, as a number of high-quality rice seeds have been introduced, the quality and, thus, the value of rice has increased significantly, by VND 500-700 per kg (about 10-14%) (NCAP, 2005: 7). Thus, the state capability for producing the new types of seeds, introducing them to farmers and applying them to large-scale cultivation has largely benefited agricultural production (NNVN, 2011).

Another important meaning of the capacity for seed production is that it ensures a higher degree of certainty of cultivation success. This is because if a wrong type of seed is applied to large-scale production, the consequence will be very serious. In addition, besides producing seeds, Vietnam still has to import seeds, notably new types, from other countries. In this case, the task of investigating, appraising the seeds is important. Even when the seeds are suitable, domesticating them to suit the distinctive conditions of the country is equally important. Moreover, as analysed earlier, Vietnam's climate is also favourable for the development of many types of pest and disease. Thus, creating the types of rice that can resist pests and diseases is also important. Hitherto the Vietnamese state has successfully created a number of such types of rice as RNT3, OM4498, OM5636, OM5930 which can both well resist pests and diseases, and generate high productivity (HD, 2008). As a result, this has ensured the success of rice cultivation as well as reduced the use of pesticides.

Because of the importance of the task of developing crop seeds, Vietnam has one Ordinance regulating the production, trading and spreading of crop seeds, which states that the government uniformly controls and manages crop seeds (SCNA, 2004). As a result, the state has paid significant attention to the task of creating, producing, controlling this important link in the cultivation process. Up to now, to a certain extent, it has well fulfilled this task, contributed largely to the rise in crop value in general, and rice value in particular.

Simultaneously, perceiving the same importance of the task of controlling animals, the state has also paid special attention to this area, from cattle, poultry breeding to aquaculture. And this has also significantly resulted in the current success of livestock breeding as highlighted earlier.

In short, the task of creating, domesticating and introducing better types of crop and farm animal largely decides the success of agriculture. Hitherto much of the Vietnamese state's effort has been given to this important area, which has significantly contributed to the transformation of the country's agricultural production. However, it is worth stressing here that, given the low education level of the peasantry and their backward production habits, it is not easy to persuade them to try and apply a new type of crop or animal in production, especially, at the initial time when the new type has not been familiar. As a consequence, coordinating agricultural production in Vietnam, notably at the beginning of the reform, has been a hard task that the state had to overcome. This is also the main content of the process of production rationalisation that the state has enthusiastically instructed the peasantry to do. Hereunder, this matter will be looked through.

State-led rationalisation of agricultural production

One important way of increasing the production productivity and efficiency is the rationalisation of production process. This principle is true for all areas of production. But it is particularly true for agriculture, where production takes place over a large space and a long period of time. Moreover, agricultural production is directly affected by natural conditions, often beyond the control of people. Thus minimising the consequences of the unfavourable conditions and maximising its advantages become even more important in agriculture.

Hitherto the Vietnamese state has done this job very effectively through the state's functional organs, which are centrally controlled but have their vertical branches, staffs and collaborators to the very grassroots levels of production. These organs are the National Centre for Agricultural Promotion (NCAP), the Department of Cultivation Planning (DCP), the Department of Livestock Breeding (DLB), the Plant Protection Department (PPD) and the Department of Animal Health (DAH) which are functional components of the MARD. These organs have control over and close links with the Departments of Agriculture and Rural Development of provinces and cities, which in turn have control over and close relations with the corresponding organs at the district and then the commune levels. By organising this kind of structure, the central departments usually have their functional staffs and collaborators working closely with farmers in their daily production work, thus can always maintain control over and assistance to farmers' production activities effectively. It is this system that has helped to rationalise the process of production, and has largely contributed to the success of this sector as a whole.

Given the distinctive preconditions for agricultural production, the Vietnamese state has creatively and effectively found its own way of guiding and coordinating the peasantry in production. As mentioned in section 3, Vietnam's peasantry is of low education and the

majority of them are untrained. Meanwhile, much of their experience was backward. Thus, letting them alone and spontaneous in their production would certainly not result in good outcome, especially when the natural conditions do not totally support agricultural production, due to unforeseen natural disasters.¹ Therefore, it is argued that one of the most important actions that the state has persistently carried out is the instruction and guidance of production, which includes advice on the selection of crops and animals, production timetables (when to start), and tending schedules and methods (feeding farm animals and their disease control, using fertilisers, pesticides). And equally important is the way that the state has used to transmit its instruction and guidance to the farmers. These points will be justified hereunder.

Controlling production timetables

To do this, obviously the DCP and the DLB must firstly be able to identify the most suitable types of crop and animal for each region, and to make the most relevant production timetable for every crop and animal season. This has always been done based on the data input collected from the meteorological and hydrological organisations, the characteristics of each type of crop and animal, and the distinctive climate and soil conditions of each region.² From the intensive work concerning the creation, domestication, and production of suitable types of crop and animal for each region and each season (highlighted previously), the MARD and its organs are arguably in the best place of deciding which types are most relevant for each region and season. Heretofore the crop and animal types and the timetable advised by them have minimised many losses that might have caused by natural disasters (NNVN, 2011).³

¹ This was evidenced in the low productivity of rice in French colonising time as mentioned earlier.

² This was revealed in an interview with an agricultural expert in Haiphong city.

³ The majority of the farmers, who were asked about the relevance of the types of crop and animal and the production timing instructed by the state, admitted that thanks to the state's guidance, they could select more suitable crops and animals, and could avoid many potentially natural risks, such as storms, floods, droughts, northeast and southwest monsoons, which previously often damaged their crops and animals badly.

In addition, those two departments have also been able to make the most scientific tending timetable and methods to instruct the farmers. For cultivation, the DCP guides how much, when and what type of fertilisers to be used. For livestock breeding, the DLB controls the quality of animal food, concerns how much and what kind of food to be fed, and helps arrange living conditions for animals, such as temperature, ventilation, moisture. With skilful specialists and staffs, supportive equipment and accesses to more advanced international assistance these state organs have created scientific and useful instructions for the farmers.¹

Effectively protecting crops and animals

Besides tending, protecting crops and farm animals is also of special importance to the success of agricultural production, which has been implemented by the PPD and the DAH. As mentioned earlier, the tropical environment of Vietnam is also ideal for the flourishing of pests, insects and diseases. It is consequently complicated in protecting crops and animals. However, by always having specialists and technical staffs working closely with farmers in fields, the PPD has been able to keep track of what is happening to the crops in terms of pest, insect and disease control (NCAP, 2010).² By timely advising farmers with the scientific use of pesticides, the PPD has helped farmers effectively protect their crops and economically use pesticides, thus saving costs and protecting environment as well (Nguyen V.H., 2010).³

¹ For some kinds of new diseases, those organisations have to collect samples to analyse through experiments. In difficult cases, they have to rely on the help of international special organisations, such as IRRI (International Rice Research Institute), FAO (Food and Agriculture Organization), ZAAS (China) or CIRAD (France). As no individual farmer could have access to those international organisations, these tasks have always been carried out by state organs.

² The MARD usually demands local authorities to be able to actively detect potential diseases (notably epidemics) before being reported by the farmers. See some Instructions by the MARD, for example, the Instruction number 2947/BNN-TY dated 11 September, 2010 on the acceleration of defending the blue ear pig epidemic (MARD, 2010).

³ Vietnam's current success of coping with the present epidemic of brown plant hoppers (and thus other derivative diseases) has been appreciated, as other countries, such as Thailand, Indonesia, the Philippines, China have failed in this, which has caused significant losses to their rice cultivation. See more in (Nguyen V.H, 2010).

The same procedure is applied to the case of protecting animals. The DAH has also had specialists and technical staffs working closely with farmers in animal farms, who have helped to detect any dangers possibly occurring to the raised animals (see MARD, 2010). However, due to the more seriousness of animal disease epidemics, the losses have been partly limited but still significant. Heretofore vaccine injection, livestock separation via centralising raising regions far from citizen-living areas, and restrictions on circulating ill animals are among the measures that the DAH has used to cope with animal diseases. In addition, the state has always subsidised farmers with diseased livestock when they destroyed them, this has also helped to prevent epidemics from spreading when diseases occurred in one region (Vietnam Government, 2008f).

It is worth stressing here that the process of rationalising the timetable and method of cultivating, tending and protecting crops has been implemented systematically and in a highly coordinative manner among functional organs and the farmers. Such programs as “three decreases - three increases” (Agroviet, 2008), “four decreases - four increases” (TTXVN, 2008a), or “one must - five decreases” (TTXVN, 2008b) have carefully designed and coordinated with farmers in implementation, and have proved their effectiveness and helped to change the old (and backward) cultivation practice of the majority of the peasantry.¹ For example, the application of the “three decreases - three increases” program in the MRD only could save around 850 billion VND per year (Phuong Nguyen, 2008), while also avoid brown plant hopper epidemic and other diseases which have been destroying crops of many other Asian countries (Nguyen V.H., 2010). However, the application of those programs requires strict compliance to such requirements as the precise time of cultivating, water supply and

¹ “Three decreases - three increases” means decreases in seeds, fertilisers, pesticides – increases in productivity, quality, efficiency (Agroviet, 2008), “four decreases - four increases” means decreases in water, seeds, fertilisers, pesticides – increases in productivity, quality, economic efficiency, production value (TTXVN, 2008a), and “one must – five decreases” means must use certified seeds – decreases in seeds, fertilisers, pesticides, water, and post-harvest losses (TTXVN, 2008b).

drain, the reasonable use of fertilisers and pesticides, which demands very high coordination of the farmers in the area. Thus, the success of Vietnam insofar has been mostly relied on the well-organised and closely-coordinated manner that the functional organs have worked with each other and with the farmers (Nguyen V.H., 2010).

Naturally, not all programs are created by the Vietnamese scientists and practitioners. On the contrary, they also have to learn from others and from international organisations. For example, some of the above mentioned programs are rooted from the IPM (Integrated Pest Management) created by FAO's experts (Phuong Nguyen, 2008). However, the most important thing here is that they have successfully modified and recreated suitable and effective programs for each season and each region of the country. This is evidenced in the reality that many other countries have not been successful yet, given the same access to the original program. Thus, it is argued that the matter that is equally important is the way that the Vietnamese state has coordinated its peasantry. In the following pages we will see how the Vietnamese state has dealt with this matter.

Effective and creative ways of managing the peasantry

Firstly, the way that the state has used to transmit its instructions to the farmers is arguably the most impactful and effective, particularly for the case of Vietnam. Possibly the state has been well aware of the weaknesses of its peasantry. The lack of education largely prevents them from assessing important information through self-studying. And if lacking genuine updated information they would merely rely on their backward experience. To cope with this the state has selected the way of transmitting its instructions by repeatedly broadcasting through the village radio system. To do this it has paid much attention to the task of building this kind of broadcasting system throughout the country.

For example, the 2006 statistics shows that, the majority of communes in rural area, notably in plain areas, have radio system at village level (see table 5.3).¹ The change in terms of coverage between 2001 and 2006 also illustrates that the state has continued enlarging the system. This is important as it is this broadcasting network that has transferred the majority of production information and instructions from the state to the peasantry. Nearly every day, late in the afternoon, when almost all farmer have returned home from work, the village broadcasting system starts operating, giving detailed instructions on the current farming work and advising any necessary actions that the peasantry should do or should not do. It may be a bit annoying for those not caring, but the information is indeed of vital importance to people responsible for current agricultural production.²

Table 5.3 - Percentage of communes with local radio system linked to villages (%)

	2001	2006	Change
Whole country	56.81	75.43	18.62
Red River Delta	98.17	99.03	0.86
North East	22.53	50.00	27.47
North West	9.30	21.02	11.72
North Central Coast	46.47	74.25	27.98
South Central Coast	60.41	83.00	22.59
Central Highlands	31.68	69.82	38.14
South East	75.72	92.70	16.98
Mekong River Delta	77.70	91.98	14.28

Source: Selected data from (GSO, 2007: 144-5).

¹ The administrative structure of Vietnam is divided into four levels. The first level is the central level with the government, the national assembly, ministries and ministry-level organizations. The second level includes 63 provinces and centrally-run cities. Under these cities or provinces, the third level consists of districts (urban and rural), towns and provincial cities. The fourth level comprises wards under urban districts or towns or provincial cities, and communes under rural districts. Villages are components of commune, and each commune often has around ten villages.

² I also experienced this sometimes, when staying in rural areas for fieldwork. The broadcasting system operated loudly to give instruction on cultivation and livestock breeding. The noise would indeed annoy outsiders, but many farmers, especially the main labourers of agricultural households, paid close attention to the instruction. They revealed that they viewed it as the basis for their coming actions.

Second is the way of introducing and implementing new things (new types of crop, animal, or new methods of production) to the peasantry. To convince the peasantry to follow, the method that the state has chosen is very illustrative and interactive. Most new things have been introduced to farmers by using the ‘performance model’ (NCAP, 2005; 2010), that is a kind of pilot activities in small scales.¹ Explaining for the popular use of the performance model, agricultural officials revealed that, due to the distinctive nature of agricultural production, of which the result could be seen only after a long time and by the actual outcome, therefore, if without eye-witness evidence it would be very hard to persuade the farmers to follow. By proving the primacy of a new thing through practical illustration, other farmers in the region will automatically follow.²

However, besides performance models, the state has also created some favourable conditions for the pioneers of experiments. The incentive has often been subsidies of necessary materials for doing pilot projects (MOF-MARD, 2006). This has encouraged the farmers to be willing to experiment with new models, especially at initial time when proofs of success were still rare. Thanks to continuous successes of new things and the clear benefits they have brought, it has become much easier for the state organs to introduce and implement new models to farmers. This is evidenced in the great and increasing number of diverse promotional activities that have been continuously used in introducing new models to farmers in every part of the country (see on the website of the NCAP for those activities).³

Last but not least is the series of supporting policies and programs that the state has carried out in terms of direct or indirect financial subsidies. Besides the new models, those supporting policies have covered a large number of areas relating to agricultural production.

¹ The scale is about some hectares and a number of farming households, depending on the types of crop and animal, see more in (NCAP, 2005; 2010).

² The interviewees were a number of specialists and technical staffs working in the promotion of agriculture and aquaculture.

³ The link to the website: <http://www.khuyennongvn.gov.vn/c-hdknkn/c-chuyengiaotbkt>. Accessed: 1 May 2011.

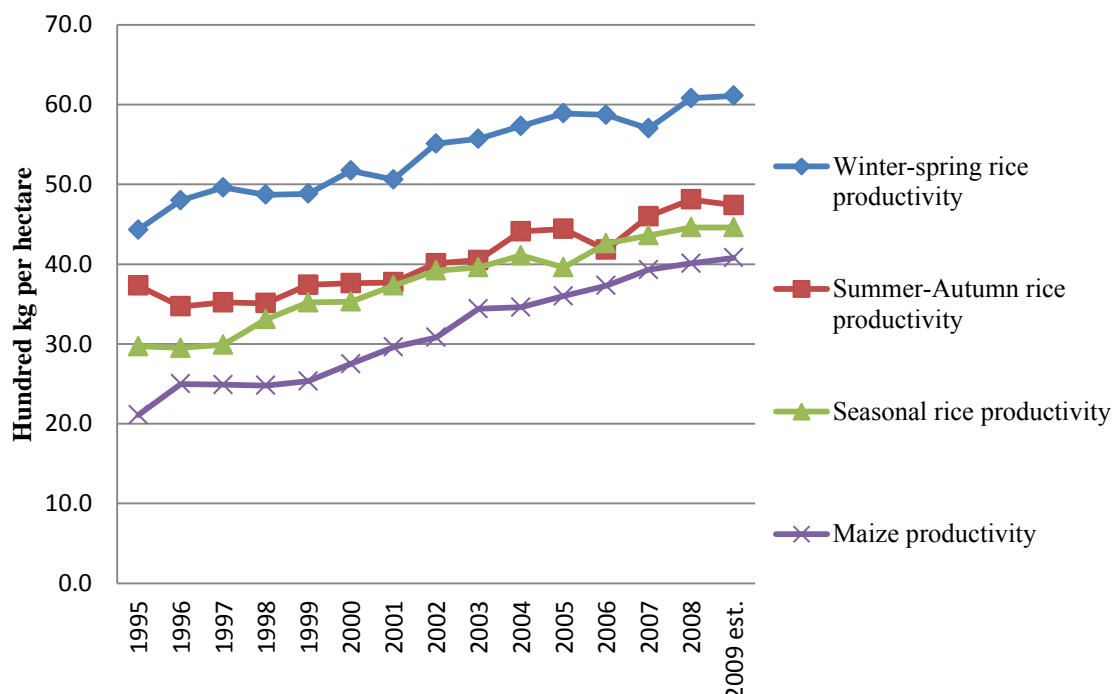
For example, by subsidising all interest on loan for purchasing agricultural equipment and machinery, the state has encouraged the industrialisation and mechanisation in agriculture (Song Dao, 2009). Additionally, to minimise losses the state has subsidised the farmer with interest on loan for reducing post-harvest losses, and supported them with production inputs and outputs and agricultural insurance (Khanh Huyen, 2010; Kinh, 2010; B.Nhon, 2011). Moreover, to support sustainable development the state has sponsored the vocational and technical training for a large number of farmers in both agricultural production and career diversification or transformation (Chi Binh, 2010).

Furthermore, the government's major directions for agricultural production are also significant. For example, the guaranty of a rate of at least 30% of profit for the farmers of rice cultivation is indeed of benefit and motivation to all farmers (Vietnam Government, 2010b). The state often uses its strategic SOEs operating in agriculture (Vietnam Food Corporations and Vietnam Coffee Corporation) to carry out such actions. By setting the floor price for purchasing paddy or coffee from farmers the state has minimised the situation of crop surplus and price slump in harvesting seasons, thus could significantly protect the farmers (Truong Giang, 2010).

In retrospect, Vietnam was among the countries of lowest rice productivity in the French colonial time. However, due to the state's tireless efforts to improve production, the rice productivity has continuously increased (see chart 5.10). This has made Vietnam currently be among the countries of highest rice productivity, comparable to such nations of advanced agriculture as Japan, South Korea, and be highest in Southeast Asia (SaigonGiaiphong, 2010). Similarly, substantial successes have also been made in other areas of agriculture, both cultivation and livestock breeding. Given the numerous obstacles to its agricultural production, the role of the state in these achievements is apparently essential.

To obtain such outcomes, it would be impossible if relying on only one or a few measures and actions. Instead, it requires a well-coordinated series of suitable actions together with relevant supporting policies, which must have been adapted effectively, selectively over time and from one place to another. Although individual producers have also tried their best to rationalise their own production processes, the transformation of Vietnam's agriculture as a whole has required such a large creation, coordination and management capacity that no individuals could afford. So far in this section we have seen the decisive contribution of the state's activities in terms of providing necessary conditions for the fast transformation of the country's agriculture. The distinctive, creative and effective ways that the Vietnamese state has selected in doing its tasks vividly illustrate the proactive, active and developmental role of the state in this area of production.

Chart 5.10 - Productivities of rice and maize 1995-2009



Source: Selected data from *Statistics on Yields of paddy and maize by provinces* (GSO, 2009m; 2009n; 2009o; 2009p).

Conclusion

This chapter has illustrated that Vietnam has had numerous obstacles to its agricultural development, and the Vietnamese state has played a decisive role in coordinating and leading the peasantry to overcome such obstacles and achieve significant successes. This explanation attributing Vietnam's agricultural successes to its state's strategic role is different from the conventional wisdom that views Vietnam's favourable natural conditions as the main cause of such successes. Additionally, this explanation also counters the view simply explaining such successes by the importance of decollectivisation which dismantled the cooperative system and motivated the farmers. Although those explanations have merit, they have largely overlooked the most important factor behind Vietnam's successes in agricultural development.

Like the overall conditions of Vietnam during the 1980s highlighted in chapter 3, the conditions of Vietnam's agriculture at that time were very favourable for the emergence of a DS in this economic sector. Clearly, the turning point of Vietnam's agriculture was certainly associated with the emergence and actions of a developmentally-committed leadership who emerged from the severe threats that Vietnam faced during the 1980s and, more specifically, from the very urgent situation of Vietnam in terms of food security at the end of the 1980s (1987 recorded a significant number of cases dying of hunger in Vietnam (Huu Tho, 2008)). The presence of such severe threats actually facilitated the emergence of a group of political leaders more strongly supporting a more radical reform in agriculture that led to the adoption of market mechanisms and other developmentally-driven rules in this sector. Representing such institutions was the issuance of Resolution 10-NQ/TW whose impacts on agricultural improvements have been clearly seen ever since.

Although the concentration of state power in agriculture has been somewhat affected, when the state lost its direct control over farmland due to decollectivisation, the laws on land have still invariably confirmed that the state is the unique manager of all kinds of land (NA, 1993; 2003a). More importantly, the coherence of the CPV and the Vietnamese state, together with the continuity of the overall state policy and the embedded bureaucratic system that the state had in agriculture, has still provided it with substantial power, notably in terms of coordinating and directing agricultural development. Last but not least, the normalisation of foreign relations and the opening of the economy have also helped Vietnam's agricultural producers get access to the huge international market.

In terms of elements and features, looking through the prism of the DS, it is not difficult to notice many similarities between the Vietnamese state's experience in agriculture and the ideal-typical DS. As we have seen, the newly-emergent, developmentally-committed leadership of Vietnam in the late 1980s had a 'big leap' in agriculture by deciding to dismantle the cooperative system and apply market mechanisms to this economic sector. However, and more importantly perhaps, the Vietnamese state did not leave the farmers alone, even after liberalising agricultural production. It, instead, retained and maintained the strategic, coordinating and leading roles in an intensive manner throughout the development process of this area. By doing so, the Vietnamese state has gone beyond just following the market. It has indeed successfully mastered the market forces and effectively steered private capital and investors to follow its preferential targets.

Thanks to its success in mastering and steering the market, the Vietnamese state could mobilise the resources in agriculture (both public and private) to focus on and successfully develop such strategic areas as rice, coffee, rubber, cashew and tea in cultivation and shrimps, Tra fish, Basa fish, chicken and pig in livestock breeding. In addition, to achieve this, the

Vietnamese state has also been very selective in its investment and development. This is illustrated in the areas that it has most focused on and also succeeded in, namely, building an effective irrigation system, creating and introducing better-quality crops and animals, and rationalising production process. It is the success in developing these strategic areas and the observably immediate and significant development outcomes that have consequently provided the Vietnamese state with substantial support, and thus legitimacy, from the peasantry and other social forces. This has contributed to the increasing capacity of the state to manage the private interests and social groups in agriculture. This capacity of the Vietnamese state also came from a number of its multi-purpose actions, such as the land reform of 1953-1956 which could provide the state with substantial support from the majority of the peasantry, while it eradicated the tangible opposing class at that time (the landlord class), as well as enabling the state to display its power and threaten all other potentially opposing forces. Although this kind of action has affected Vietnam's human rights record, it has substantially helped the Vietnamese state to strengthen its power and consolidate its position in the society.

The foregoing discussion in chapter 3 mentioned two missing features of the Vietnamese state compared to the DS archetype, however, these features are seen here in the agricultural sector. During the development process of Vietnam's agriculture, the MARD has played the most influential and effective role in coordinating and leading the course. Probably, only in this sector, the vertical structure of a ministry in Vietnam has proven solid, synchronous and effective. As this chapter has shown, the role of the MARD's functional departments (the NCAP, DAH, DCP and DLB) and the provincial departments of agriculture and rural development have been decisive in all strategic areas of agriculture. In addition, the coordination and direction at local levels have also proven very close, consistent and effective. That state staffs are always considered by farmers as experts suggests that the

bureaucratic system in the agricultural sector has been rather coherent and competent. Furthermore, this bureaucratic system has also deeply embedded itself in the peasantry even at the grassroots level. This has altogether helped the state organs in agriculture obtain substantial autonomy and insert much of their guidance and direction into the development process of agriculture.

However, as a country cannot rely largely on agricultural production, in contrast, it must rely more on industrial production to reach a higher limit and catch up with advanced nations. Therefore, to value a state's role in an economy, it is still necessary to investigate the industrial sector. For the case of Vietnam, this angle will be analysed in the next chapter.

Chapter 6: Assessing the Course of Industrialisation

In Vietnam, the importance of industry has been clearly proven, due to its increasing share in the country's GDP and export turnover. Throughout the process of development, what has been most mentioned and focused on is the cause of industrialisation and modernisation. After 25 years of innovation, from a mainly agricultural economy, Vietnam has achieved an economic structure more inclining toward an industrial economy, with industry accounting for more than 40% of the whole economy's production (Nguyen K.A., 2009). This illustrates significant achievements of the country in the course of industrialising its economy, in terms of both size and structure.

Regarding the industrial transformation of Vietnam, although the beginning of the post-reform period saw the concentration of the state efforts in developing the three macro-economic programs, notably food production and processing, the Vietnamese state also identified and encouraged other strategic industries. At each period of the development process, different industries received different degrees of priority. Hitherto the state has identified a number of key and prioritised industries for each period of time up to the year 2020.

More specifically, if we divide Vietnam's industries into basic product manufacturing, mineral extracting industry, labour-intensive industries, and industries of higher-tech manufacturing, we will see the transformation and importance of each of these industrial sectors throughout the development process. Although the basic product manufacturing has accounted for the largest part of total manufacturing, it seems to have been absent from the exporting arena. This means that this manufacturing sector has mainly aimed at serving the domestic demand and played a supplementary role to other exporting industries. Put

differently, it has had to play a role of setting up the basic foundation for other industries by providing energy, infrastructure and other important inputs. Regarding exports, while labour-intensive industries have recently (since 2009) become the largest, mineral extracting industry has still contributed significantly to exports, although an increasing part of its products has been used domestically. Additionally, the higher-tech manufacturing sector has emerged as important export-oriented industries, with electronic and computing parts and apparatus accounting for the main share. Although its contribution to the country's production has remained small, due to its new establishment (since 2000), the future development of this high-technology sector should be crucial to Vietnam in pursuing the upgrading and advancing of its economy.

To answer our main question of what contribution the Vietnamese state has made to the industrialisation process, this chapter will focus on both the roles that the Vietnamese state has played in the industrialisation process and the implementation and outcomes of the roles that it has chosen. The chapter will begin with the depiction of the overall picture of Vietnam's industry to highlight the most important and significant industries in the country. The second section focuses on the process in which the state has adjusted the legal framework for business, highlighting its positive impacts on creating enterprises and the state implication for managing private interests in this process. The two last sections take a closer look at the whole development processes of the most important industries, in order to identify the factors contributing to their successes, as well as the causes of their defects and failures.

6.1. An Overview of Vietnam's Industry

The role of industry in the economy has been perceived by the Vietnamese leadership since the earliest days as an independent state. However, the limited inheritance from the French colonial period, the fierce destruction of the wars, together with the flawed central planning economic model, made the industry of Vietnam and the whole economy lag far behind compared to other countries in the region, notably at the time the reform was announced. Since the reform was started, thanks to a more pragmatic approach to economic development and industrial structure, the country's industry has been developed in a more planned and development-oriented path, with a certain number of achievements.

This section depicts the picture of Vietnam's industry, with a special focus on the post-reform period. It will sketch the structure of the economy, of each sector and sub-sector, and identify the industries of most significance in each sector for further scrutinising in subsequent sections. It shall now begin with a brief view of the pre-reform period.

Vietnam's industry in the central planning period

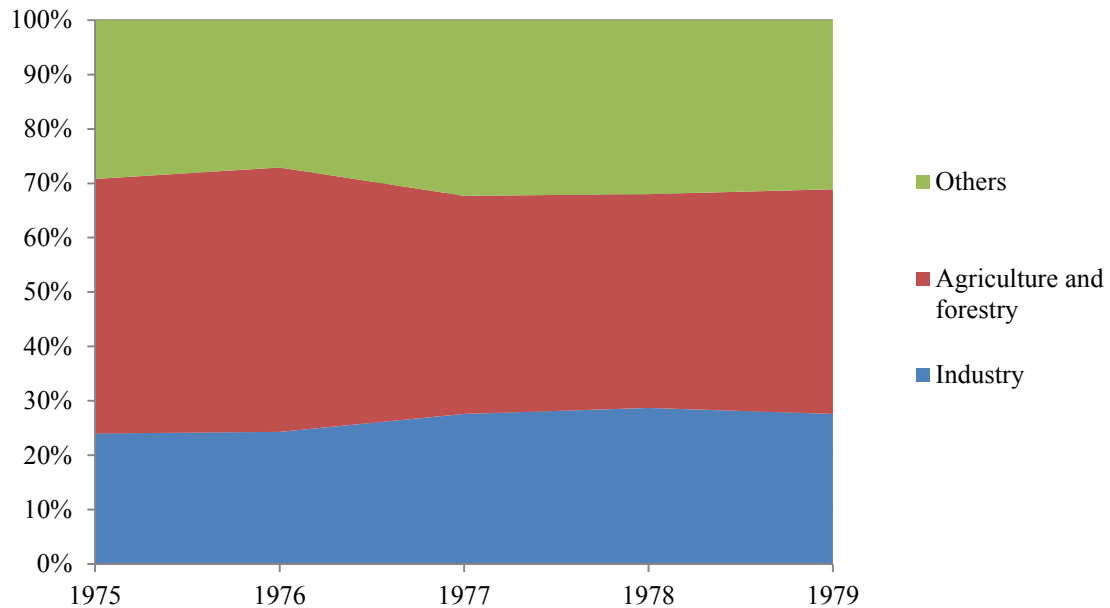
The DRV inherited almost no industry from the French colonisers, due to the main focus of the colonial regime on mineral extracting industry. During the 1930s and 1940s, there were no metallurgical, manufacturing or chemical industries (Pham and Vuong, 2009: 52). Throughout the country, there were fewer than 200 factories, all of which were small, obsolete and mainly in stagnation. Even worse, the labour force at that time was unavoidably of very low education, skills and expertise, due to such poor socio-economic conditions with over 90% of the population being illiterate. The situation was even exacerbated when the country had to re-enter another 9-year resistance war (1946-1954) against the reoccupation of the French. This

made the already poor starting points of Vietnam's industry even worse because of the damage inflicted by the war.

Although since the early 1950s, the DRV started receiving substantial aid from "brother countries" in the socialist camp, notably the Soviet Union and China (Pham and Vuong, 2009: 84-5), the poor industrial foundations, especially in terms of human resources, and the negative impact of another lengthy war against the Americans (1955-1975) and the wars against Cambodia and China, made the DRV's industry impossible to develop well. Until the end of the 1970s, industrial production had still accounted for only about a quarter of the total national income (see chart 6.1 or Norlund, 1984). Because of the poor status of the whole economy and the costly military expenditure, the investment share was limited to well below 20% of the total national income. In addition, like other socialist countries which had a general belief in the importance of heavy industry (Dang, 2009: 87) the DRV also channelled the majority of the resources into heavy industries, notably the sector producing 'means of production' which was seen then as the commanding heights of the economy (chart 6.2).¹ Growth prospects were exacerbated because this industrial sector was badly inefficient, which was illustrated in that it received 80% of the total investment in industry (in 1965), while contributed only 43% of the total output value (Norlund, 1984). As the state was still 'too ambitious for projects with too large scales to be fulfilled, heavy industry [consequently] could not serve light industry and agriculture' (CPV, 1986a: 703). The whole economy, particularly industry, operated in a highly inefficient and imbalanced manner.

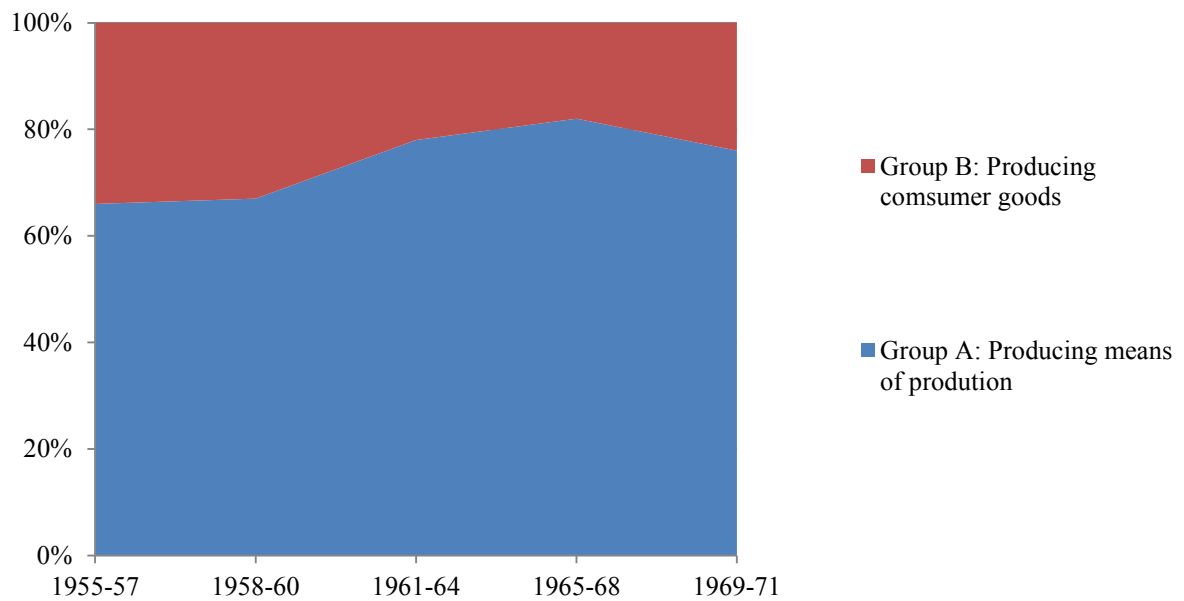
¹ During the Central Planning Period, Vietnam's economy was organised based on Marxist ideas which divided the country's production into two groups: group A was the sector producing means of production and energy - including machinery, metallurgy, construction materials and chemical products, materials; group B was the sector producing consumer goods - including food processing, paper, textile manufacturing, etc. See more in (Norlund, 1984: note 1).

Chart 6.1 - The structure of the national income 1975-1979



Source: Selected data from Norlund, I. (1984) 'The Role of Industry in Vietnam's Development Strategy', Journal of Contemporary Asia, 14(1): 94-107.

Chart 6.2 - Investment structure in industry 1955-1971



Source: Selected data from Norlund, I. (1984) 'The Role of Industry in Vietnam's Development Strategy', Journal of Contemporary Asia, 14(1): 94-107.

At the time when the country was reunified in 1975, industry in the South was in no better condition than that of the North. Most of the factories were facing problems of raw

material shortages and very low capacity (Norlund, 1984). When the war ended, many factories were abandoned as the owners and workers fled, causing a general stagnation in production, particularly in the industrial sector. As in the North, the industry of the South was also mainly aimed at import substitution for consumer goods, its international trade, thus, could not develop well. This status was worsened as despite the Vietnamese state's attempts at diversifying international trade relations after the war against the Americans, due to the contemporary international context of the Cold War, Vietnam could only trade primarily with countries in the Council for Mutual Economic Assistance - Comecon (Norlund, 1984). Thus, the industrial situation in the whole country was generally in very poor, underdeveloped conditions and was mainly of inward orientation at the time of reunification.

However, it is noteworthy that the state's investment priorities had begun to change by the late 1960s. Due to the realisation of the difficult situation caused by the excessive focus on heavy industry and the severe investment inefficiency, the state started adjusting its investment programs significantly. After 1965, light industry and agriculture in the North started receiving more investment. This meant the share of investment in industry during the late 1970s dropped to only around 32%, compared to 48.5% in the early 1960s (Norlund, 1984). In addition, there was a pivotal change in the late 1970s and early 1980s, that is, the change in economic control mechanism towards a more market-oriented direction, which gradually untied production force, both in industry (with decree 25-CP of 1981) and in agriculture (with directive 100-CT/TW of 1981). All of this resulted in certain improvements in agricultural and industrial production. But those improvements could not make up for the sudden drop in foreign aid firstly from China and then from the Soviet Union (Pham and Vuong, 2009: 84-5), and Vietnam was cornered by a total crisis that required a radical change in the economic model officially declared in 1986.

In short, the limited inheritance from the old regime (both in the North in 1945 and in the South in 1975), the fierce destruction and costly expenditure of the series of wars, together with the flawed economic model of central planning and the utopian belief in the socialist dogmatic approach to economic development made Vietnam's industry before 1986 operate in an inefficient and imbalanced manner. It is this imperative situation of industry that urged and also allowed the reformist leadership of Vietnam to act more strongly and to embark on a radical change in the production and distribution mechanisms in this economic area. The dismantling of the CPS and the adoption of an open market economy were admitted as a consequence.

Industrial development since the reform

Although the Vietnamese state (both in the DRV and the reunified Vietnam) always emphasised the importance of industry in the economy since the early years in the development process, the main difference between the period before and after the reform is the stress that the state laid on heavy and light industries. This was clearly expressed in the Sixth Party Congress Resolution of 1986 as '... heavy industry, at this stage, is focusing firstly and mainly on serving agriculture,' while 'special effort is made to push up the production of consumer and export goods' (CPV, 1986a: 725, 854). This direction is different from the main focus placed on heavy industry that the state pursued in the pre-reform period. It was the tangible dilemma that encouraged orthodox Marxist-Leninist political thinking in the political elites to change towards a more realistic development program as a last resort to cope with the impasse. In addition to the important shift in development priorities, the post-reform state directions became more specified and concretised than the ambiguous ones in the pre-reform time.

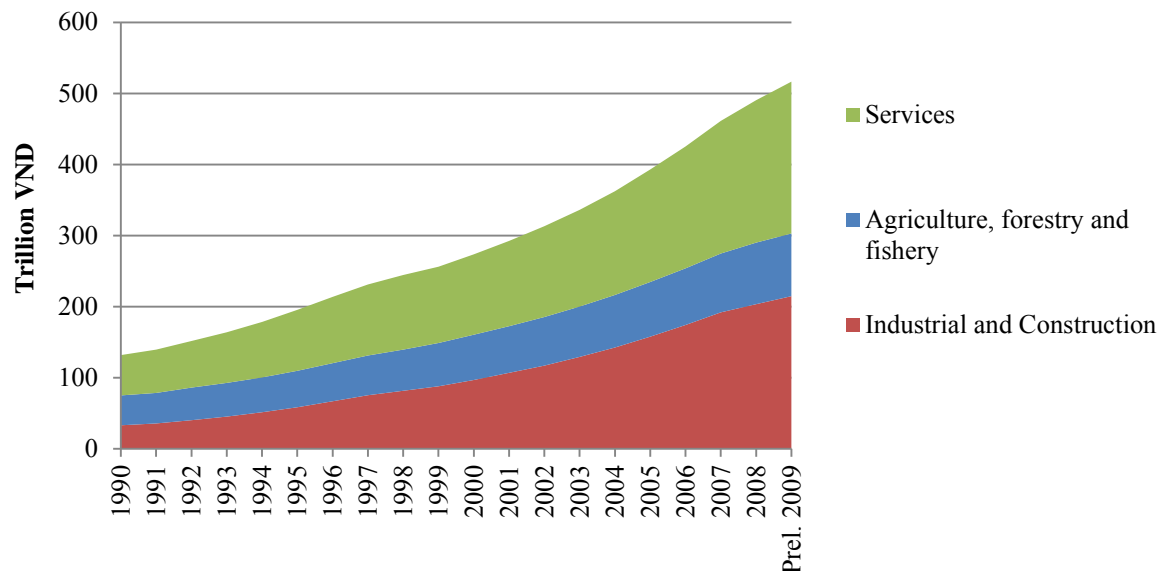
Right at the Party Congress of 1986, a number of most urgent tasks were pointed out and committed to be given most priority for the time being. Of which, the three macro-economic programs - the core of the socio-economic tasks of the five year period 1986-1990 - were carried out to deal with the immediate difficulties: food program - to cope with the tangible hunger; consumer goods program - to cope with the chronic scarcity of products in the economy; and exports program - to cope with increasingly serious trade deficit (CPV, 1986a, Dang, 2009: 318-9). During this time, about 60% of the central budget and 75-80% of the local budget was used to serve these three macro-economic programs (CPV, 1989). Following these major urgent tasks, more specific tasks would then continue to be posed at subsequent congresses. Hereunder we will see what changes in industry have been made ever since.

Changing industrial structure

Vietnam's economic structure has changed substantially toward a greater proportion of manufacturing and heavy industrial content over the last two decades. While the structure of the economy changed little before the reform, with industry accounting for around 25% of the whole economy, since the reform the share of this sector has increased significantly. Although the three economic sectors have all grown rather rapidly, the faster growth of industry has made it the greatest sector of the economy, which, for example, accounted for 40.24% of the total GDP in 2009 (Thanh Mai, 2011). As have seen in chapter 5, agriculture (including forestry and fishery) has developed spectacularly in terms of both quantity and quality, however, the industrial sector has still grown much more rapidly (chart 6.3). This has helped to continuously enlarge the share of industrial production in the total production capacity of

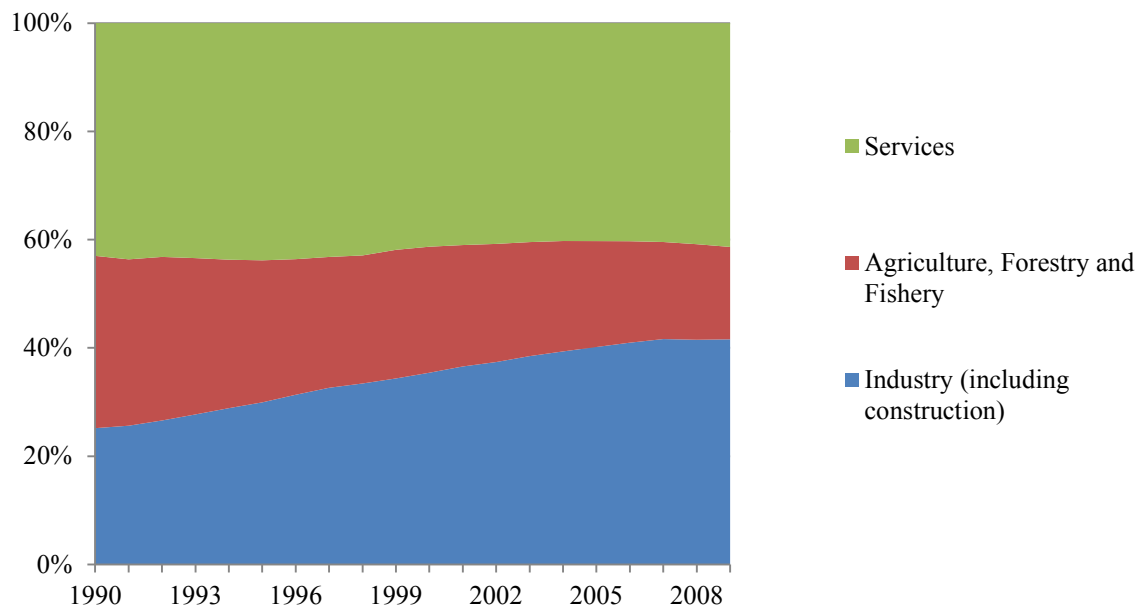
the economy (chart 6.4), and has made the whole economy of Vietnam move toward a more industrialised structure.

Chart 6.3 - GDP at constant 1994 prices by economic sector



Source: Selected data from 'Gross domestic product at constant 1994 prices by economic sector', (GSO, 2010e).

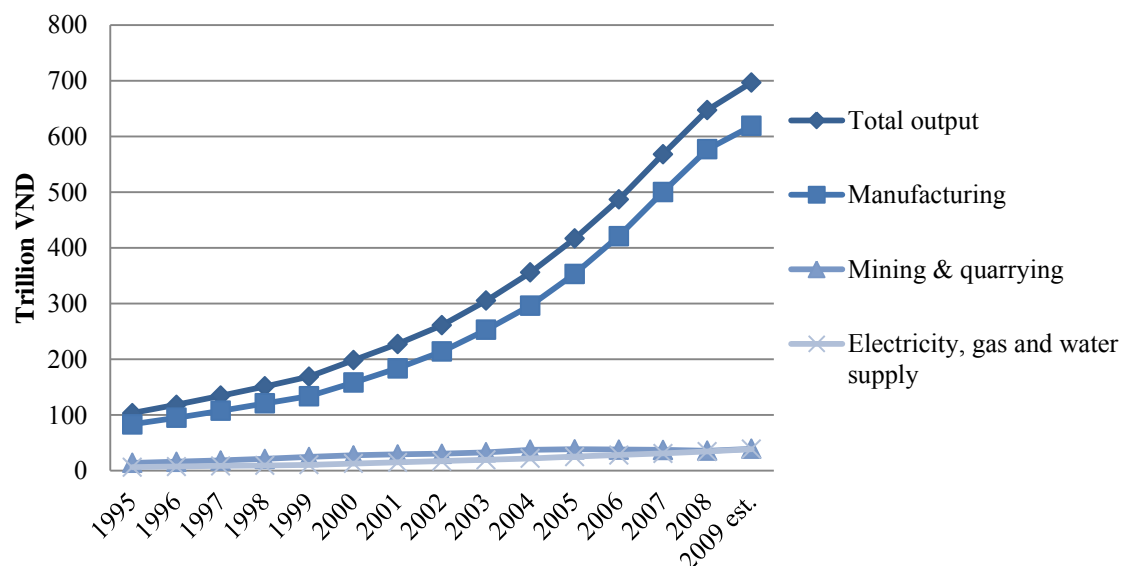
Chart 6.4 - GDP structure by economic sectors



Source: Selected and processed data from 'Gross domestic product at constant 1994 prices by economic sector', (GSO, 2010e).

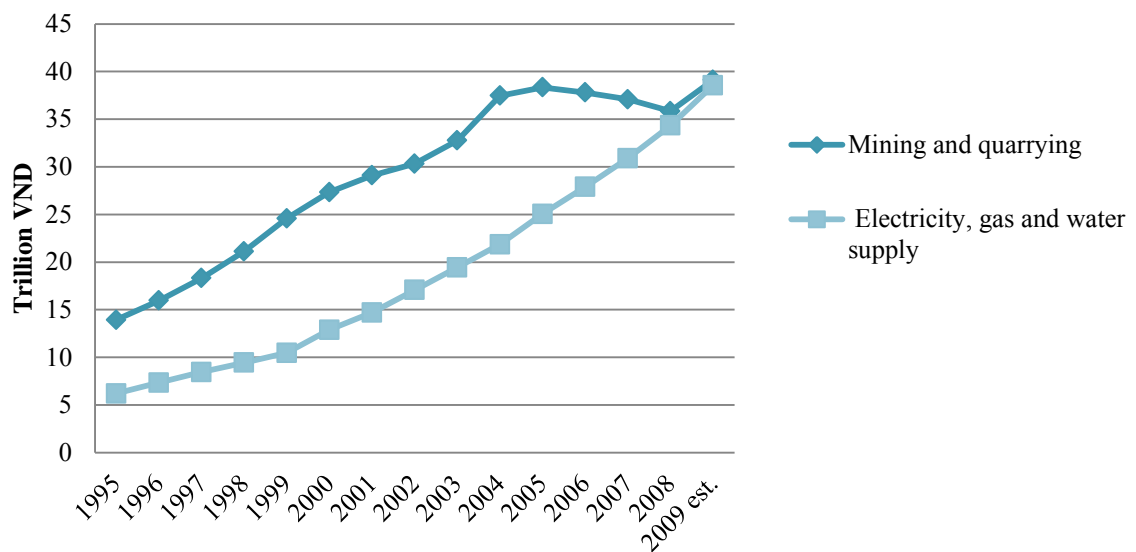
In terms of the industrial structure itself, if we divide Vietnam's industrial sector into three sub-sectors, namely, manufacturing; mining and quarrying; and electricity, gas and water supply, it is easy to notice that the outputs of the two latter sub-sectors have remained rather small, while that of manufacturing has increased substantially and steadily during the course of development (chart 6.5a) and accounted for the major share of total industrial output (chart, 6.5c). As the share of the two latter sub-sectors has been rather small, chart 6.5a cannot illustrate their growing trends, while, in reality, those two sub-sectors have also grown significantly (see chart 6.5b). Thus, at first glance, this shows a positive trend of industrial development, as manufacturing always helps to increase the added value of industrial products (Cohen and Zysman, 1987), a large share of it in the industrial structure illustrates a positive outcome. Nonetheless, in order to thoroughly understand the country's industry in terms of development level, the following pages will analyse what constitutes the manufacturing sub-sector.

Chart 6.5a - Industrial output in 1994 price by industrial subsector



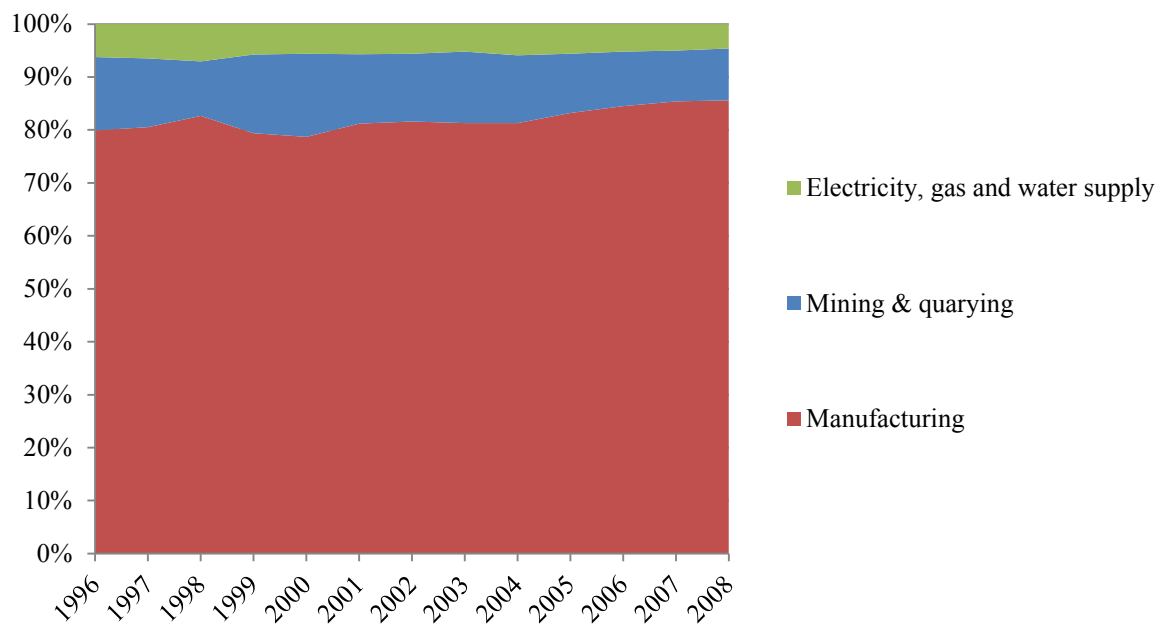
Source: Selected data from 'Industrial output value at constant 1994 prices by industrial activity', (GSO, 2010f).

Chart 6.5b - Industrial output in 1994 price of selected sub-sectors



Source: Selected data from 'Industrial output value at constant 1994 prices by industrial activity', (GSO, 2010f).

Chart 6.5c - Structure of industrial output value at current prices by industrial activity



Source: Selected data from 'Structure of industrial output value at current prices by industrial activity', (GSO, 2010g).

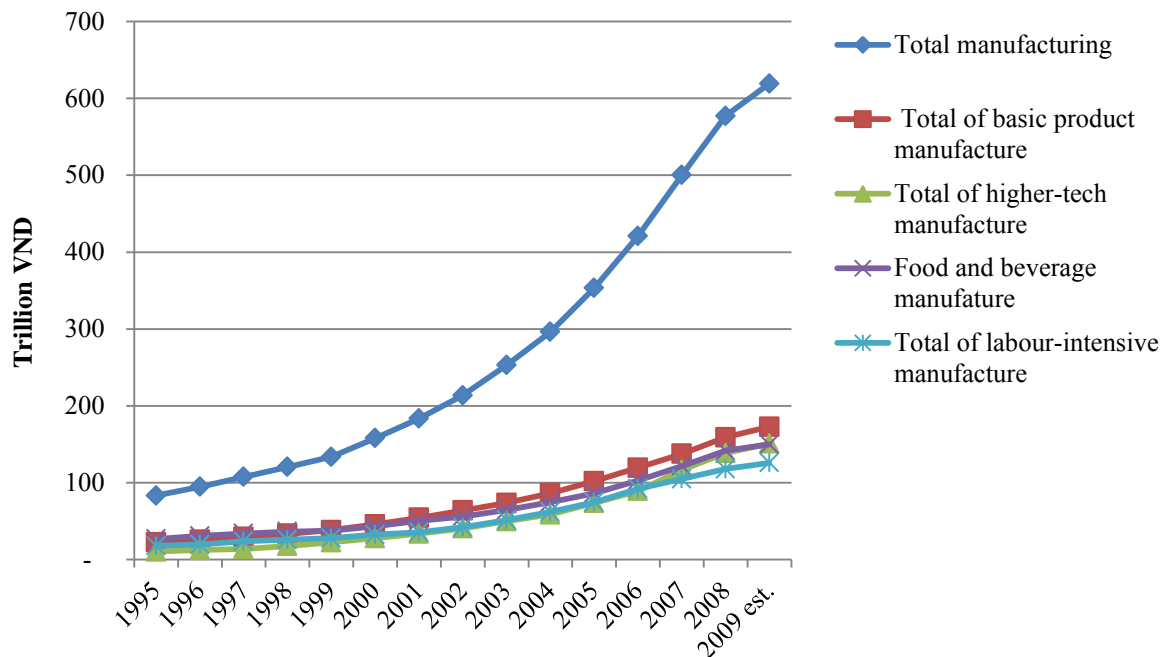
Structure of manufacturing

In manufacturing, Vietnam's industry comprises four major groups with relatively equal proportions. Based on the available statistics, if manufactured products are grouped into four categories, namely, basic products (as steel, chemical, chemical products, non-metallic mineral products); higher-tech manufactured products (as fabricated metal products, machinery and equipment, electronic and computing parts and apparatus); labour-intensive products (as textiles and garments, shoes and leather products, and furniture); and food and beverages, the contribution of each of those groups to the total manufacture has been approximately equal (chart 6.6).¹ That food processing has accounted for a large part of manufacturing explains for the success of agriculture-related area which has already been seen in chapter 5. However, chart 6.6 shows that the manufacturing of basic products has made up the greatest part of manufacturing meaning that the country has still had to focus on developing the infrastructural foundations for its industry. In addition, the fact that labour-intensive and higher-tech groups have had almost the same share in manufacturing provides a possible conclusion that the industrial level remains less advanced in terms of technological content.²

¹ It is not entirely precise to divide manufactured products into such groups. However, for the purpose of this study I am using this grouping in order to distinguish between labour-intensive and higher-tech groups, so as to locate the status of Vietnam's industrial development level. Higher-tech products here are meant products that require more complicated techniques to make, and very often they are more capital-intensive products.

² As the general industrial development trajectory of a country is from low- to high-technological content and low to high added value, the more advanced an industry is the higher proportion of technological and intellectual content it has.

Chart 6.6 - Outputs of selected groups of manufacturing industries in 1994 price



Source: Selected data from 'Industrial output value at constant 1994 prices by industrial activity', (GSO, 2010f).

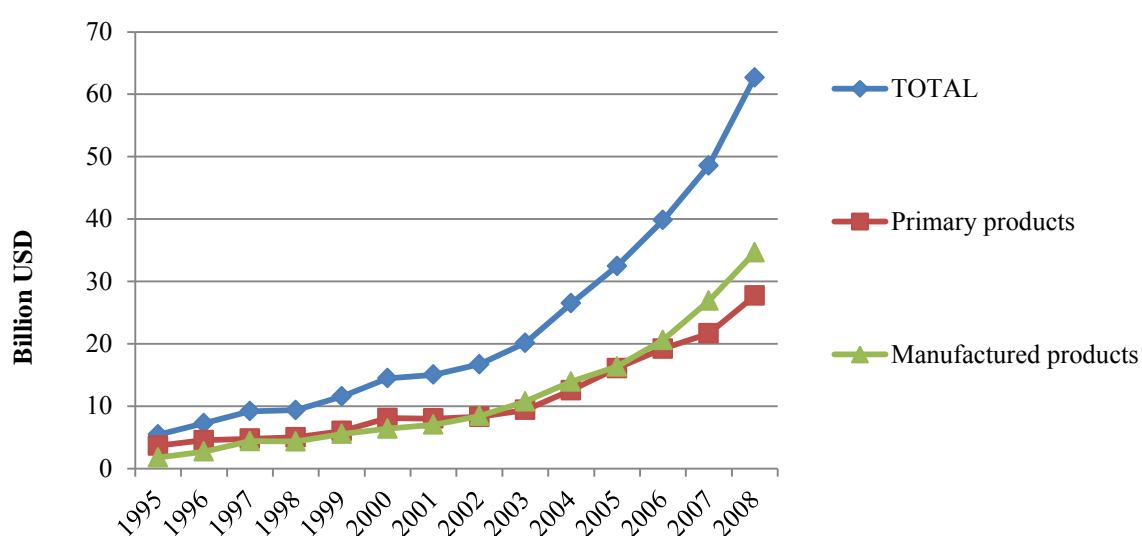
Industries important for exports

As one currently salient feature of Vietnam's economy is its relatively high degree of trade openness, with exports accounting for nearly 70% of the total GDP (Phan, 2011; IMF, 2007), the industrial sectors contributing more to export turnover will definitely be more important. Based on the Standard International Trade Classification (SITC) to divide Vietnam's exports into two categories of *primary products* and *manufactured products*, these two categories have been accounting for roughly equal shares in the country's total export turnover, with a trend of more manufactured products in recent years (chart 6.7).¹ This reveals that Vietnam

¹*Primary products* includes food, foodstuff and live animals; beverages and tobacco; crude materials, inedible, except fuels; mineral fuels, lubricants and related materials; and animal and vegetable oils, fats and wax. *Manufactured products* comprises chemical and related products; manufactured goods classified chiefly by materials; machinery, transport and equipment; and miscellaneous manufactured articles.

has still relied largely on export of primary products, of which the major products are crude oil and coal, besides agriculture-related products as seen in chapter 5. In addition, as mining and quarrying sub-sector has accounted for a relative small part of the total industrial output (see chart 6.5) its significant contribution to exports reveals that the majority of these products have been used for export purpose.

Chart 6.7 - Exports of goods by Standard International Trade Classification (SITC)

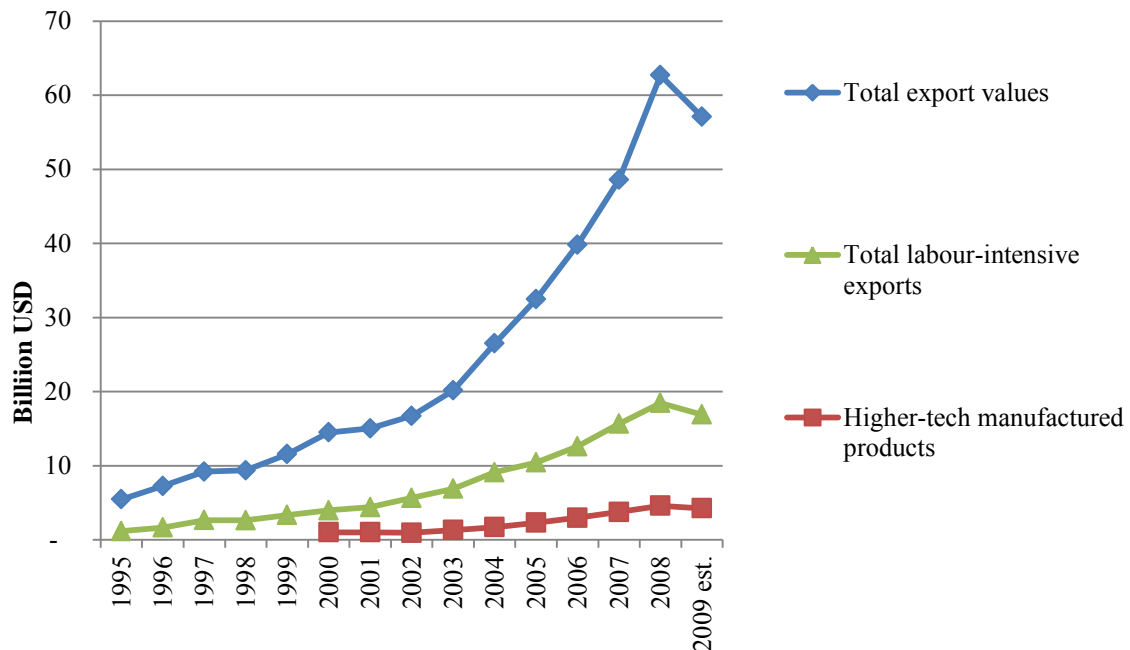


Source: Selected data from 'Exports of goods by SITC [Standard International Trade Classification]', (GSO, 2010d).

In terms of manufactured products for exports, this category has largely comprised labour-intensive products. The industry contributing most to the country's export turnover has been textile and garment (T&G), which has even overtaken crude oil to become the greatest export industry since 2007 (Phuoc Ha, 2007). The second labour-intensive industry having a large share is shoe and leather industry, which, together with T&G, have been two most important export-oriented industries of Vietnam. Chart 6.8 illustrates Vietnam's export turnovers of labour-intensive and higher-tech manufactured products from 1995 to 2009. It is rather clear that labour-intensive industries have remained most significant in the total export

turnover, while higher-tech manufactured products have still accounted for a rather modest share.

**Chart 6.8 - Value of total exports and some selected groups of exports
1995-2009**

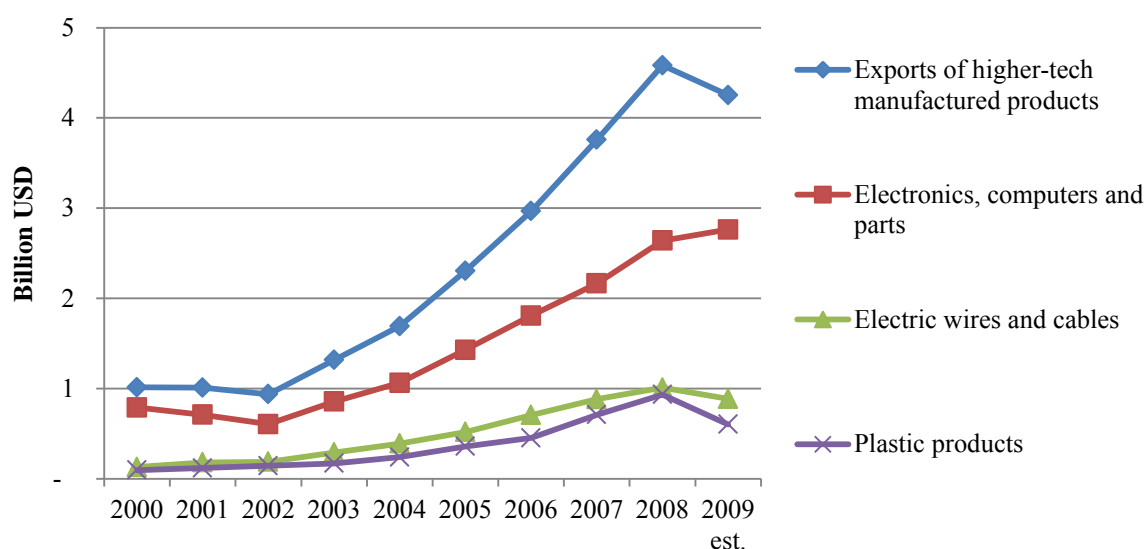


Source: Selected data from 'Exports of goods by economic sector and by commodity group', (GSO, 2010h) and 'Some main goods for exportation', (GSO, 2010i).

Looking more closely at the higher-tech manufacturing industries, these industries have mainly included three major groups of products. The first and largest is the production of electronics and computing parts and apparatus, which has stably accounted for about two thirds of this manufacturing area (chart 6.9). The other two groups, actually not of very high technology as the first group, are electric wires and cables and plastic products. Thus, in terms of structure of this group of industries, Vietnam seems to have had a reasonable structure, when the proportion of the most modern industry (electronics and computing) has been largest. However, in terms of scale, this sector has remained very modest, and has still relied mainly on assembling with low added value (BaoToQuoc, 2010). Another feature of this manufacturing area is that those industries came into life rather late, their production started

taking place as late as around 2000, and most of them have mainly relied on foreign investments. Therefore, although this area has increased significantly, it has still remained very limited and dependent.

Chart 6.9 - Exports of higher-tech manufactured products



Source: Selected data from 'Exports of goods by economic sector and by commodity group', (GSO, 2010h).

In brief, Vietnam had a very low industrial starting point at the time of the reform, due to the limited legacies of the old regime, the inefficiency of pre-reform state investments and destructive impact of the wars. However, since the reform, Vietnam has been able to maintain a stable high-growth rate, and made remarkable advances in industrial production capacity and structural adjustment. Between 1995 and 2009, the total value of industry in fixed prices increased almost sevenfold (an average growth rate of 15% annually). Although Vietnam's industry has still remained largely reliant on primary and labour-intensive products, and has been in the initial phase of industrial upgrading, given the low starting points and the special priority that Vietnam had to give to agriculture at the reform onset (as analysed in chapter 5), these achievements are indeed significant.

As the overall purpose of this study is to identify the role and contribution of the Vietnamese state in the development process, in the following sections, we will analyse in more detail those most significant industrial sectors to find out the relations (if any) between the state's directions and policies and the outcomes in reality. Additionally, we will also look in depth at the defects and failures of those sectors and identify their reasons and causes. But firstly, we need to understand the legal environment for business in Vietnam to facilitate our later analyses.

6.2. Legal Framework Adjustments

Understanding the nature of a country requires the consideration of its historical conditions. The case of Vietnam was historically entirely different from the cases of Japan, Taiwan, South Korea, or other non-socialist countries: Vietnam had had more than four decades of central planning which made the development of the private sector virtually impossible. Consequently, Vietnam had to start the reforming process by beginning to diversify its enterprise force, in other words, it had to start building the private economic sectors from scratch.

In the central planning system, the Vietnamese state had only two roles, namely, custody and demiurge. In addition, the custodial role even had its extreme feature of prohibiting and preventing private sectors from both existing and developing in any economic area (Dang, 2009: 99-124). When the state prohibited all other economic entities, allowing only state and collective sectors, there was obviously no state midwifery or husbandry activity towards private sectors. As every aspect of the economy was only officially and legally occupied by state and collective sectors, the state clearly almost entirely played the role of

demiurge in the whole economy. Thus, the move from plan to market saw a decrease in the state's custodial and demiurge roles, with a contemporaneous increase in the midwifery and husbandry roles. This move also required a radical change in the legal system, especially for economic entities.

This section analyses the way that Vietnam has adjusted its legal system for business, when it moved from a central planning to a market economy. The first sub-section outlines the real changes with the issuance of a number of laws regulating enterprises and their investment activities, while the second one focuses on the positive impacts of this legal system on the creation of the force of enterprises. The last part points out one important feature of the legal framework: the application of different laws to different economic sectors in order to treat them differently.

Adjusting laws on enterprises and investment

It is widely accepted that one of the biggest and most important changes in Vietnam's development process is the acceptance of private ownership, with which private economic entities have been allowed to exist and develop (Dang, 2009; Pham and Vuong, 2009). In a country where private property was admitted, it is common to see the foundation and operation of a private enterprise in area not legally prohibited. However, in a country like the pre-reform Vietnam, where private economic entities were not accepted, their existence and operation were illegal and, consequently, almost entirely absent. As a result, the legal acceptance of the existence of private enterprises (accepting a multi-sector economy) was a 'big leap' in Vietnam's political system (Pham and Vuong, 2009: 96-9). This change was originated firstly from the change in the directions set by the CPV leadership, which was officially declared at the Sixth Congress (CPV, 1986a). The change in the general direction

required and also led to a radical change in the legal system of Vietnam for establishing and regulating economic entities.

Therefore, a number of important legal documents related to economic entities and investment activities have been enacted as the basic foundations for private sectors. First was the Law on Foreign Investment of 1987, under which foreign investors were encouraged in Vietnam for the first time, with many more favourable conditions (lower income tax, more diverse forms of operation, more areas of promotion) than those of decree 115-CP regulating foreign investment in Vietnam since 1977 (Government Council, 1977; NA, 1987). Equally important was the issuance of the Law on Companies and the Law on Private Enterprises (both of 1990), with which, also for the first time, the state has admitted the existence of private sectors and guaranteed private property rights (NA, 1990a, b).¹ These laws were the first legal documents allowing the development of non-state sectors, and with which for the first time the state played the role of midwifery.

When new economic actors (private entities) were first allowed to come into existence, there was a set of different laws regulating different economic sectors. In further promoting domestic investments, the state issued the Law on the Encouragement of Domestic Investments (LEDI) of 1994, which concretised the investment-encouraged areas and specified the benefits that domestic investors would enjoy (NA, 1994c). Soon after that, the state also enacted the Law on SOEs of 1995, under which, as a domestic economic entity, SOEs were also able to enjoy the benefits from the LEDI of 1994 (NA, 1995). Meanwhile, foreign investment activities and foreign invested enterprises were regulated by a separate law which was naturally different in terms and conditions of encouragement and restriction. Table

¹ The law on companies regulated limited liability companies which are formed and share-owned by at least two individuals, whereas, the law on private enterprises regulates unlimited liability enterprises formed and owned by only one individual.

6.1 below illustrates the whole picture of the legal framework for investment and enterprises in Vietnam.¹

Table 6.1 - The laws regulating enterprises and investment activities

	1988	1991	1994	1995	1996	1999	2000	2004	2006	1 July 2010	Present
FDI activities	Law on FDI of 1987, amended in 1990, 1992				Law on FDI of 1996, amended in 2000				Law on Investment of 2005		
Domestic investment activities	Other related laws and regulations		Law on encouragement of domestic investment of 1994		Law on encouragement of domestic investment of 1998						
FDI Companies	Law on FDI of 1987, amended in 1990, 1992				Law on FDI of 1996, amended in 2000				Law on Enterprises of 2005, amended in 2009		
Limited, joint stock Companies	Legally not admitted	Law on Companies of 1990					Law on Enterprises of 1999				
Private Enterprises		Law on Private Enterprises of 1990, amended in 1994									
SOEs	Under-law documents: decrees and decisions by the Council of Ministers			Law on SOEs of 1995				Law on SOEs of 2003			

Source: Synthesised the time of validity and expiry from the above laws.

Positive impacts of the legal system

One important trend in the change of Vietnam's legal system is that all the above mentioned laws have been amended or replaced by new laws which have entirely moved towards a more encouraging environment for investment and doing business. For instance, compared to the LEDI of 1994, the law of 1998 significantly widened the areas that domestic investments were encouraged, and more importantly, it offered many more incentives in terms of

¹ There has been another law regulating one economic entity of Vietnam, that is, the Law on Co-operatives of 2003. However, as the contribution of this economic entity has been little, it is not mentioned here.

reduction of land rents and taxes.¹ Likewise, the Law on Foreign Investment of 1996 offered many more favourable conditions for foreign investors, of which the most important point (in foreign investors' opinion) was the extension of the life time of investment projects, from up to 20 years (by the 1987 law) to up to 50 years.² In addition, the 1996 law also widened and specified the investment-encouraged areas, notably relating to the location of projects, and increased investment incentives by significantly decreasing income taxes in promoted cases (NA, 1987; 1996a).³ Equally important, with this law for the first time Vietnam introduced the form of Export Processing Zone and Industrial Zone, a form that had previously proved very successful in China. Thus, the law system has been considerably amended and adjusted in more and more favour of both domestic and foreign investors.

In reality, thanks to this increasingly supportive legal system Vietnam's non-state sectors have developed very spectacularly. From no registered domestic private enterprise before 1990, in 2000 Vietnam had about 31,000; in 2009 this number was roughly 460,000 (Quang Ha, 2010).⁴ More importantly, Vietnam's domestic private enterprises have rapidly improved their production capacity, performance, efficiency and job creation. The sharp increase of the period 1990-2000 was the result of the 1990 Laws on Companies and Private Enterprises and the LEDI of 1994 and 1998, but the boom in registered enterprises between 2000 and 2009 was due to the Laws on Enterprises of 1999 and 2005, with more favourable conditions for private sectors (Quang Ha, 2010). Regarding foreign invested enterprises, the number of firms has increased continuously since the law first came into effect, creating about

¹ See and compare articles 7, 9, 10 of the 1994 law and articles 15, 17, 18, 20 of the 1998 law (NA, 1994c; 1998b).

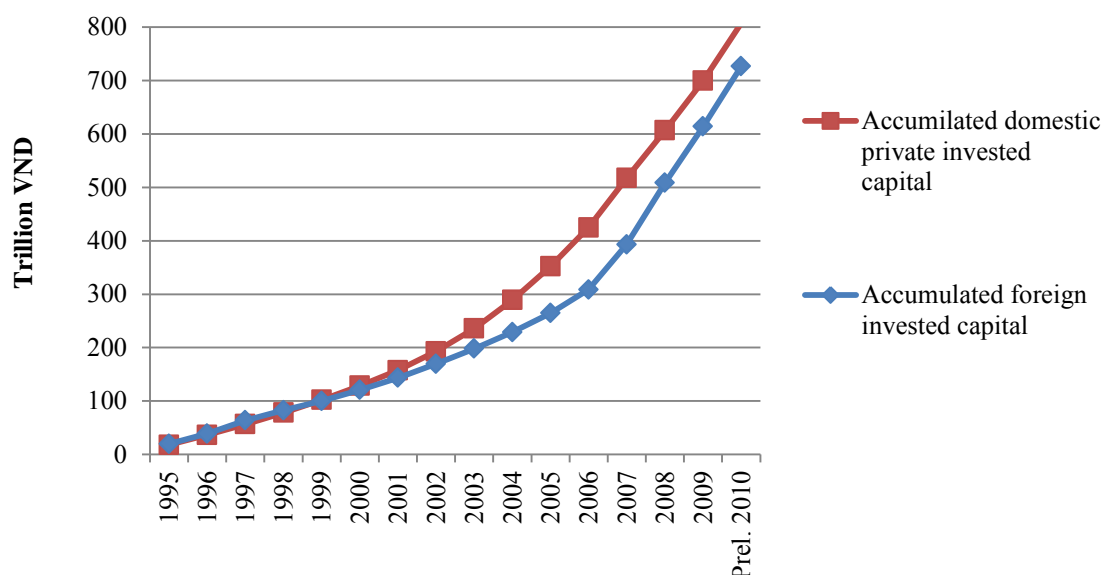
² This information was revealed in a number of interviews with foreign investors in Haiphong and Hanoi cities.

³ Comparing the promoting conditions in these two laws of 1987 and 1996 will clearly shows that the latter is much more favourable than the former.

⁴ Although the number of actual operating private enterprises as of March 2009 was only 272,680 - nearly 60% of the registered figure, this rate is normal according to a specialist conducting the research on Vietnam Private Enterprise.

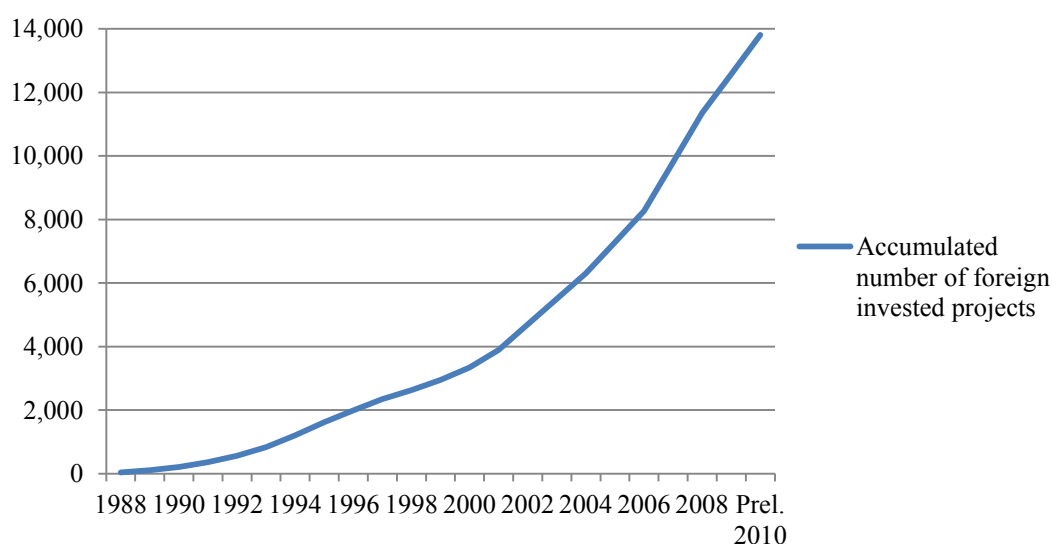
14,000 projects of this type in Vietnam currently (GSO, 2011a). The rapid growth and significance of these business forces are illustrated in charts 6.10 and 6.11 on the accumulated invested capital of these sectors and the accumulated number of foreign invested projects.

Chart 6.10 - Accumulated invested capital of non-state sector in 1994 price



Source: Selected and processed data from 'Investment by ownership', (GSO, 2011b).

Chart 6.11 - Accumulated number of foreign invested projects



Source: Selected and processed data from 'Foreign direct investment projects licensed in period 1988 - 2010', (GSO, 2011a).

One important point to note is that the changes in the law system for investment and business operations were originated from the directions stated in the earlier party resolutions. For example, such directions stated in the 1996 party resolution (issued in July, 1996) as ‘widening the forms of cooperation between the state sector and the domestic and foreign private sectors;’ ‘increasing the capacity for absorbing capital and technology from outside;’ and ‘forming concentrated industrial zones (including both export processing zones and high-tech zones), to create favourable locations for the building of new industrial activities’ were the rationale for the above mentioned changes in the Law on Foreign Investment of December 1996 (CPV, 1996). Likewise, the direction of ‘maximising the source of domestic capital to increase the rate of investment’ stated in the 1996 economic development strategy by the CPV (1996) was the basis for the intensification of investment incentives in the LEDI of 1998. Additionally, this development strategy also resulted in the issuance of the Law on Science and Technology which encourages enterprises to apply advanced technology in their investments and production (CPV, 1996; NA, 2000b). Thus, the changes in the legal environment were pioneered by the party’s directions, before being further concretised by the NA’s laws and government’s documents. This again reinforces the point about the supremacy of the CPV’s documents analysed in chapter 3.

The state implications in adjusting the legal system

Clearly, the gradual completion of the legal system regulating economic activities shows the state’s effort in improving the business environment for the whole economy. However, arguably, by initially applying different laws to different economic sectors, the state could differentiate between economic entities, especially, when their development levels were uneven and the state’s attitudes towards them were different. SOEs were controlled by a

particular law, and actually enjoyed more favourable conditions than other entities.¹ Domestic investment was regulated by the LEDI and, therefore, was relatively protected from foreign investment (NA, 1994c). Foreign capital was encouraged in some areas stated in the law governing it, even with many incentives in certain fields (NA, 1987, 1996a). However, foreign capital could not freely enter such areas as oil and gasoline distribution or financial, retail sectors, when those areas had not been opened up.² Thus, the legal system has been part of the state's technique for managing different economic interests, protecting domestic sectors from foreign ones, and the state sector from private ones.

Although a level-playing field has been created and applied to all economic entities and their investment activities since July 2010,³ the analysis of the legal system above reveals that the business environment in Vietnam had been uneven before that time. There had existed different laws regulating different investment activities until 2006, when the uniform Law on Investment of 2005 took effect (for both domestic and foreign investments), and different economic sectors had been discriminated until mid-2010, when the Law on SOEs expired and all economic actors started being regulated uniformly by the Law on Enterprises of 2005 (amended in 2009) (see table 6.1; NA, 2005a; b). As a result, this reveals one important point that the state has, arguably, deliberately created an uneven-playing field, in order to behave differently towards different economic actors. It also shows the state's intention in not only encouraging the private sector, but also in protecting its SOEs by prolonging the validity of the Law on SOEs (2003 version) until the end of June, 2010 (Nhat Quang, 2010; NA, 2003b).

¹ See and compare the laws on SOEs and on companies and on private enterprises (NA, 1990a; 1990b; 1994a; 1994b; 1995).

² Article 3 of the 1996 Law on Foreign Investment states that the government decides the areas of conditional and prohibited operation. In reality the government has very slowly opened strategic sectors for foreign capital.

³ This level-playing field was applied as of commitments to the WTO (see Nguyen T.T., 2007).

This was actually the use of industrial policy (in terms of legal framework) to foster different economic sectors, intentionally employed by the Vietnamese state.

In short, it has been clear that the directions set by the leadership of the central party of Vietnam has been the most important legal document which has pioneered the changes in and the creation of the set of laws regulating enterprises and their investment activities. Since the reform, due to the party's directions of more open and encouraging attitudes towards both domestic and foreign invested enterprises, the legal system has been changed towards more favourable and attractive terms and conditions for all investors. This has arguably been the main reason for the flourishing of economic entities in Vietnam heretofore. And in general, this illustrates increasingly significant midwifery and husbandry roles that the Vietnamese state has played to facilitate the creation and emergence of the business force in the economy.

In order to identify the specific roles of the state in each industry, the rest of this chapter focuses on a number of the most important and significant industries to see how the Vietnamese state has developed them.

6.3. Identifying Strategic Industries

With three macro-economic programs decided at the Sixth Party Congress, in the industrial sector, Vietnam started mainly focusing on light industries and handicrafts for the production of consumer and exported goods (CPV, 1986a; 1986c). As the 1986 resolution emphasised that 'creating more jobs and well utilising the labour force was an extremely important socio-economic demand,' labour-intensive industries, notably textile and garment (T&G) and footwear industries, became a good choice of prioritised industries. The possession of a cheap

source of labour, together with the relatively low entry barriers of these light industries, made them the earliest key industries of the country since the reform. However, the state still acknowledged the role of heavy industries for the long-term development of the economy. Thus, as will be seen, besides those light industries, the state also selected a number of strategic heavy industries and mobilised substantial capital to develop them at the later time.

In the first subsection, we will see the strategic industries having been selected and developed by the state during the process of development. The second subsection looks at the way the Vietnamese state develops a number of the most important industries.

Targeting and identifying key industries

Although at the time of the reform the state switched its focus from heavy industries to light industries, it has also selectively developed a number of heavy industries which are perceived to be crucial to the long-term development of the country. For example, although the Sixth Party Resolution stressed the three macro-economic programs, this resolution did also emphasise the ‘extremely important role’ of energy which ‘decides the tempo of development of the whole economy’ (CPV, 1986a: 854). As a result, energy industries, including petroleum, gas, coal and electricity, were prioritised to be developed, although the state would also ‘not build any heavy industries beyond the real ability and conditions’ of the country at that time (CPV, 1986c). But as soon as the economy had begun to develop satisfactorily, and overcome the crisis of the 1980s, the state started paying more attention to heavy industries. The resolution of 1996, consequently, decided that 70% of the total investment capital in industry would be used for heavy industries (CPV, 1996). Despite the return to focusing on heavy industries, the main difference between the pre- and post-reform periods is that in the latter, the state was more selective in deciding the investment of strategic projects.

As a result, the state has selected a number of important industries and given different degrees of priority by using different supporting policies towards them at different periods of development. For example, T&G and footwear industries have been considered as prioritised industries since 1996 (CPV, 1996), and will be so until 2020, while the plastic industry was prioritised before 2010, but has not been so since 2010. Or steel and bauxite industries have been prioritised since 2007, and will be so until 2015, but will no longer be prioritised after 2015 (for the selection of prioritised and key industries, see table 6.2 below).¹ This feature shows a similarity between the Vietnamese state and the archetypal DS, when they also actively select to focus on a certain key industries and will phase them out when those industries have become mature or less strategic (Johnson, 1982: 73).

In addition to supporting measures and policies, provision of basic infrastructure has been one continually important task that the state has concentrated on. Besides improving the transportation and telecommunication systems, increasing the capacity and quality of electricity system has been a major focus of state efforts. Thus, although not included in the list of key or prioritised industries, as energy is ‘extremely important’ for all other industries (CPV, 1986a), the state has applied many special policies, especially in financial mobilisation, for the investment of such capital-intensive projects of this industry (as will be seen shortly).

One important generality in the group of capital-intensive industries is that the state has largely played the role of demiurge, especially at the initial period. This is due to the fact that it had been rather difficult to attract investors into such capital-intensive industries at the beginning. However, when a number of projects had proved successful, private investors, especially foreign partners, found it less risky for them to invest in or to co-operate with

¹ Decision 55/2007/QĐ-TTg prescribes a number of policies supporting the development of prioritised and key industries, such as land, trade promotion and research and development with partly subsidised budgets. According to this decision, besides enjoying the supporting policies as prioritised industries, key industries are subsidised up to 50% of investments in environment protection projects at the site of factories.

Vietnam's SOEs in this sector to develop a joint venture. This will be illustrated clearly in the case of electricity or petrochemical industries hereunder.

However, the Vietnamese state has played the roles of midwifery and husbandry in both high-tech and low entry barrier industries. As will be seen in the last section, the state created many favourable conditions and supporting policies to promote the emergence of new enterprises (both newly established domestic enterprises and foreign migrating companies) in labour-intensive industries. Simultaneously, it has used the most favourable conditions and maximum incentives (within the legal framework) to attract high-tech projects, especially those invested by multinational lead firms (see NA, 2008). In order to assess the state's actual roles and contribution the next subsection will analyse some strategic industries in details.

Table 6.2 - Prioritised and key industries from 2007 to 2020

No	Name of industries	2007-2010		2010-2015		2015-2020	
		P	K	P	K	P	K
1	Textile and garment (fibres, fabrics, silk, exported clothing, complementary parts)	X		X		X	
2	Shoe and leather (shoes, sandals, complementary parts)	X		X		X	
3	Plastics (household plastics, packing, bottles, pipes, technical plastics)	X					
4	Processing of agricultural, forestry, aquatic products	X		X		X	
5	Steel (steel billets, special steel)	X		X			
6	Bauxite exploitation and processing	X		X			
7	Chemical (basic chemicals, fertilisers, petrochemical, pharmaceutical, cosmetic)	X		X		X	
8	Mechanical manufacturing (automobile, ship building, complete equipment, agricultural machinery, mechanical electronic apparatus)		X		X		X
9	Electronic, telecommunication, information technology equipment		X		X		X
10	Products of new technology (new energy, renewable energy, software industry, digital content)		X		X		X

Source: 'Decision on approving the list of prioritised industries, key industries in the period of 2007-2010, the prospect to the year 2020 and a number of policies supporting the development', (PM, 2007).

Notes: P indicates Prioritised Industries; K indicates Key Industries.

State-led development of key industries

This sub-section will look at three industries, one belonging to the basic infrastructure - electricity, one providing important necessities for other industries - petrochemical, and one illustrating the advancement of an economy - high-tech industries, to see how the Vietnamese state has intervened in their development processes and its specific roles and contribution to their development.

Electricity

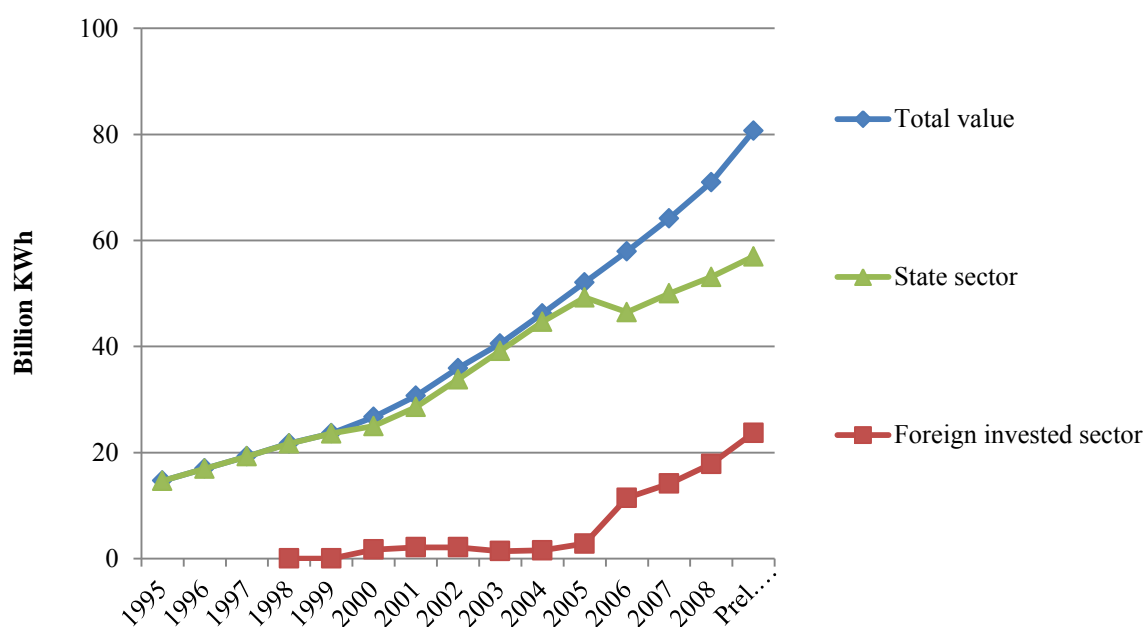
Although Vietnam Electricity Group (EVN) has been given a monopoly in electricity transmission and distribution, it has mainly focused on the investment of large-scale electricity generation projects. Over the last two decades, the state, via the EVN, has carried out many large-scale electricity generation projects of all types of hydraulic, thermal and nuclear power plants. As these are all large projects, in terms of both capital requirement and technical complexity, the concentration of resources under the management of the state has been very important, especially in the initial phase of development. As clearly shown in chart 6.12 below, the state sector had had to be responsible for almost all electricity generation until 2005, the foreign invested sector only started being significant from 2006, while domestic private sector has seemed almost absent from this field. As a result, it is undeniable that the state's role in electricity generation has been decisive.

Foreseeing the importance of electricity, the Vietnamese state actually started building the master plan for this industry as early as the beginning of 1980s, with many steps, from plan I to VII, then, at each period, it specified the plan for the next 5 years (EVN, 2011). During the development process, investment capital has always been the main obstacle. As a result, the state has had to create a number of special policies for mobilising capital for this

industry at different times. For example, in 2003, the government supported the EVN to implement the electricity projects of 2003-2004 with many flexible mechanisms for project management and implementation, besides instructing the MOF to guarantee foreign loans borrowed by the EVN to purchase equipment, or allowing Vietnam's commercial banks to lend loans over 15% of each bank's owned capital to the EVN for these projects (Vietnam Government, 2003b; 2004). In addition to these supporting policies, the PM's decision 1195/QD-TTg in 2005 decided a number of special mechanisms and policies for the investment and construction of the 14 urgent electricity projects of 2006-2010, which contain many more supporting items, especially concerning capital provision (PM, 2005a).

After the initial phase of development, which required great support from the state, the state has planned to diversify the capital sources for this industry. As a result, in the electricity plan VI (for the period of 2006-2010, direction to 2025) the state assigned the EVN to be responsible for investing only 38.3% of the total capacity to be invested in this period, but it had to focus on building the transmission networks throughout the country (EVN, 2011). In this plan, the state also demanded Vinacomin and PetroVietnam, two state-owned groups operating in energy industries, to invest in a number of thermal power plants and power plants using natural gas. Thus in 2010, PetroVietnam produced 13% of the total electricity of the country (Duc Chinh, 2011). In the electricity plan VII (for the period 2011-2015, direction to 2020, prospect to 2030) the state has planned to build a competitive market for electricity by reducing the share of electricity generation of the EVN to around 50% and calling for investors from all other economic sectors.

Chart 6.12 - The electricity generation capacity of Vietnam



Source: Selected data from 'Main industrial products', (GSO, 2010k).

Petrochemical

Although the state acknowledged the importance of the petrochemical industry to the development of the whole economy from early time, due to the large capital and complicated technique requirements of this industry, Vietnam has only been able to develop it since the last few years. The first oil refinery was first mentioned in the 1986 resolution, but had faced many difficulties in finding joint venture partners. In addition, the Vietnamese state had also received many negative criticisms on this project from major international institutions, such as the World Bank, the IMF and the United Nations (Folkmanis and Nguyen, 2009). However, Vietnam finally decided to do it with 100% state-owned capital, and managed to complete the project in 2009. This reminds us of the Korean Pohang Iron and Steel plant resolutely invested by Park Chung Hee, despite many financial difficulties and international criticisms

(Evans, 1995: 74-5). While Vietnam's first oil refinery has been less impressive, this project was indeed a turning point for the petrochemical industry of Vietnam, as it could not only satisfy 30% of the domestic demand for petroleum products, but also open the way for developing this important industry in Vietnam.

In recent years, this industry has received substantial support from the state, which has allowed PetroVietnam, the only state-owned group operating in this sector, to carry out many more petrochemical projects. For example, since 2006 the Politburo has allowed this group to retain at least 50% of its profits obtained from Vietsopetro and other product-sharing contracts to finance its investment projects (Politburo, 2006; Monre, 2011).¹ Following the first oil refinery, PetroVietnam has invested in many large and important projects. For example, the Ca Mau Gas-Electricity-Urea Fertiliser Amalgamation has supplied urea fertiliser (replacing imported fertiliser) to Vietnam's agriculture and generated a large capacity of electricity. More importantly is a number of projects that PetroVietnam and its counterparts have been investing, such as the Southern Petrochemical Amalgamation in Baria-Vungtau province with the capacity of 3 million tons of products annually, when finishing will supply 65% of the domestic demand for such materials as PE and PP in 2017 (Phuoc Ha, 2008); the Nghi Son Petrochemical Refinery Amalgamation, with capacity of refining 10 million tons of crude oil per years and the investment capital of 6.2 billion USD, which will meet the demand for oil and gasoline of all the North, besides supplying a large part of petro-derivatives for other industries (Tu Nguyen, 2010). Thus, following the difficult development process associated with the first oil refinery, many other large-scale petrochemical projects have been developed, setting the foundation for the petrochemical industry of Vietnam, and replacing part of the previously imported inputs for other industries.

¹ Vietsopetro is the business name of Vietnam-Russia Oil and Gas Joint Venture.

In general, although it took about two decades for the first oil refinery of Vietnam to be started, with the determination of and special concern from the state, this project was eventually completed with exclusively Vietnamese capital. Since then, with special supporting policies for PetroVietnam, the main state actor in this field, the Vietnamese state has used PetroVietnam as a tool to lead and implement the development of this industry. This SOE has also been the tool, equipped with other state incentives, to attract and marry with domestic and international investors to incrementally develop the country's petrochemical industry. Although many of the projects are still under construction, the future of this important industry seems brighter, meeting, at least, the ceaselessly increasing domestic demand for petro-related inputs.

High technology industries

Although Vietnam did not have any initial technical conditions in terms of high-tech industries, the Vietnamese state did realise and acknowledge the importance of these industries from very early on. The industry of electronics and informatics was first touched in the 1991 resolution as 'a possible key industry for the future' (CPV, 1991b). The development of this industry was mentioned again in the 1996 resolution as 'one key industry to be formed' (CPV, 1996), and was then specified by the 2005 development strategy for information technology and communications, which regards it as 'a key industry, prioritised, supported and encouraged by the state' (PM, 2005b). Then the promotion of high-tech industries in general was developed further and in a much more systematic manner by the issuance of the Law on High Technology of 2008, specifying the industries and areas of high technologies and supporting measures and policies towards them (NA, 2008). With this law, the state has created a number of very 'attractive' and 'tempting' incentives such as rent-free land and long

periods of tax exemption and breaks (Mason, 2006). Following the state direction, a number of high-tech zones have been built, especially in major cities, such as Hanoi and Ho Chi Minh Cities, with fully completed infrastructure, in order to facilitate the investments of high-tech investors. Thus, the legal framework and infrastructure for the development of high-tech industries have been gradually completed by the state, with more specific and targeted incentives.

Although the size of high-tech industries in general, information technology in particular, have remained small and still limited to down-stream activities, Vietnam's information technology has been one of the fastest growing industries in recent years (GSO, 2010c: 12). More importantly, the state has attempted to attract global lead firms into this sector, in order to articulate Vietnam into the global network of production of high-tech industries. It is clear that the Vietnamese state has shown its enthusiasm and flexibility in negotiating with strategic investors, and has been quite successful in attracting them. The investment commitment of Foxconn, the world biggest outsourcing group, to set up 'a chain of hi-tech townships in Vietnam' (Vietnews online, 2010); the investment decision of Intel, the world leading chip producer; or of Nokia, a world leading mobile phone producer, were vivid examples of those efforts. Besides the static advantages (e.g. a cheap labour force and a good natural location) and the state-created incentives (rent free land, tax breaks and exemption) which are already attractive to such investors, the cooperative attitude of the government (as described by Intel's vice president and general manager for assembly and test as 'very forward-looking' (Mason, 2006)) has been equally important. Thus, in addition to encouraging all economic sectors to take part in this industry, the state has strategically aimed at attracting original multinational corporations as an important tool to 'put Vietnam on high-tech map' (Folkmanis, 2010).

On the whole, it was clearly very hard for the state to transform some capital intensive and technologically demanding industries, especially during their initial development, due to the low starting point of the country when it started the reform. However, what the state has done in the above cases shows that the Vietnamese state has still played a crucial role in the development of those strategic industries, regardless of which role, demiurge or midwifery, it has played.

In the next section, we will focus in depth on another area of industry, labour-intensive industries, T&G in particular, to see what roles the Vietnamese state has played, and how it has performed them.

6.4. The State's Roles in the Labour-intensive Industry

Labour-intensive industries in general, T&G in particular, have been increasingly important, and recently become the greatest industrial sector contributing to Vietnam's exports. Although this change in the order of importance has been partly caused by the decrease in the export turnover of crude oil, due to an increase in domestic processing of crude oil, the main reason for this has been the continuous high-growth rates of the two most significant labour-intensive industries over the past two decades. Their sustainable high-growth rates, annually 17% for T&G and 10% for footwear, have made Vietnam one of the 'top 10' world exporters of these two areas (Phuoc Ha, 2007; Hoang Chau, 2008; Uyen Huong, 2011). More impressively, Vietnam's T&G industry has entered the 'top 5' world exporters since 2010 (My Hanh, 2010; Ky Anh, 2011). As a result, this industry has proven its special importance to the country's exports.

The continuous high growth of labour-intensive industries over the last two decades was the result of a number of causes. The first is the comparative advantage of a large cheap source of labour that Vietnam had when starting the reform. The second cause, as analysed earlier, is the Vietnamese state's general direction and its concretisation under specific laws which altogether have increasingly supported the formation and diversification of enterprises and investment activities. And the third, arguably the most important, is the series of policies and measures that the Vietnamese state and its agencies have used as leverages to promote the development of this sector.

This section will focus mainly on analysing the specific policies related to T&G industry to find out the possible relations between the state's policies and the outcomes in reality. Meanwhile, it also highlights the defects and failures of this successful industry to point out the limits of the Vietnamese state policies.

State policy impacts on T&G industry

Although the production of exports was one of the three macro-economic programs that the state decided to focus on since the reform inauguration, due to the country's severe food crisis of the late 1980s this program did not receive sufficient consideration at the beginning. During the first 15 years of the reform process the Vietnamese state's attempts focused mainly on 'escaping from the socioeconomic crisis,' thus, apart from elaborating the direction of agricultural development with 'real and first priority,' the state did not point out any specific light industries to be developed in some initial resolutions of the party (see CPV, 1986a: 729; 1991b; 1996). The resolution of the Seventh Party Congress, for example, just highlighted the industries and areas with 'favourable conditions and need to be developed well in the 1990s to push up and support other sectors' (CPV, 1991b: part 3). Those industries

included food production, food processing, production of exports (not specified), oil exploration and exploitation, oil, gas and mineral processing, electricity, transportation, irrigation, telecommunication (CPV, 1991b). Thus, although production of exports was mentioned as an area for promotion, the state did not specify any industries that need to be developed. It just pointed out the main products for exports as agricultural products and agricultural processed products, sea products, light industries and handicrafts (CPV, 1986a). Even until the end of the 1980s, key products and industries had not been specified, as ‘they would be identified more clearly during the course of implementing the development strategy’ of 1991-2000 (CPV, 1991b: part 3). Only since the end of the five-year plan of 1991-1995, key products and industries have become clearer.

From the party resolutions

As a result, the 1996 resolution emphasised clearly that ‘attempts will be made to develop light industries, firstly T&G and footwear’ (CPV, 1996: part 2). In addition, in this resolution T&G was also emphasised as a prioritised industry, besides some others (CPV, 1996).¹ Thus, for ten years since the reform began, this was the first time specified industries in general, T&G in particular, had been specifically mentioned as prioritised industries in the party resolution, which then became the basis for the further concretisation of this direction under the government’s development strategy, master plan, and other related measures and mechanisms to promote the development of these industries.

¹ Other prioritised industries and products stated in this resolution were agricultural, forestry and aqua-cultural processing, shoes and leather, computing and electronics, and a number of mechanical products.

To development strategies and supporting policies

The years following the key guidance from the 1996 resolution saw the concretisation of this direction: the building and adjustments of development plan, strategy, and supporting policies among the central state and its agencies. In 1998 a master plan for developing the T&G industry was built for the first time as a result. In this “Master Plan for Developing the T&G Industry to the year 2010” the government set the target to develop this industry ‘to become a key and major industry for export’ (Vietnam Government, 1998a). However, the target set in this plan was too modest;¹ it was then replaced by a much more ambitious development strategy of 2001, with a set target of an export turnover for 2010 of 8 to 9 billion USD. In addition, the strategy also prescribed supporting policies and mechanisms for implementing the strategy to achieve this ambitious goal (Vietnam Government, 2001b).

The 2001 T&G development strategy also pointed out a number of very attractive leverages which were then concretised by the MOF’s Circular 106/2001/TT-BTC of 2001 guiding the implementation of this strategy. For example, all the money earned from the fees for and auction of garment export quotas would be used for export promotion. If this source was still insufficient, further budget measures needed for garment export promotion would be sponsored by the state’s budget regulated by Circular 61/2001/TT-BTC which guided the spending for activities supporting market development and trade promotion (MOF, 2001a).² In addition, the state also subsidised all training fees and research and development activities in T&G industry, besides providing infrastructure, especially sewage treatment projects, and

¹ For example, the export turnover targeted for 2010 was only 4 billion USD.

² The state uses up to 0.2% of the export turnover (in FOB price) to sponsor such activities as the collection of information about export goods, clients and markets; the employment of commercial and economic consultants; the search of export market; the participation in international trade fairs and exhibitions, and uses up to 0.1% of the export turnover for setting up overseas promotion centres and setting up overseas representative offices of Vietnamese enterprises and associations (MOF, 2001a).

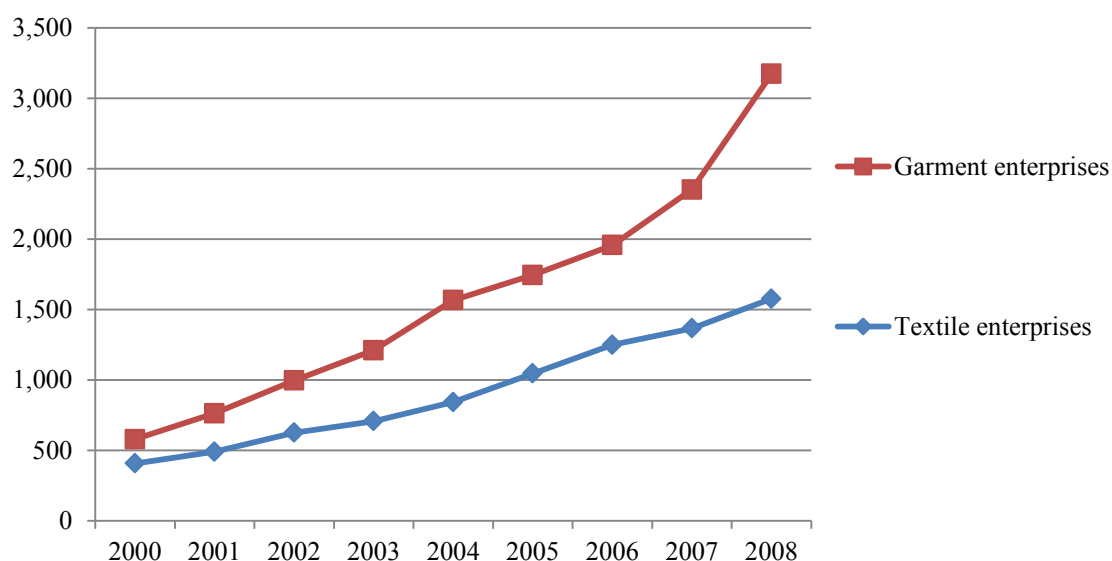
organising concentrated industrial clusters for T&G factories (MOF, 2001b).¹ Furthermore, the state specially encouraged enterprises to promote their exports into the US market by, for instance, offering such a high bonus of 7% of their FOB export value to this market from the beginning of 2001 (MOF, 2001b). Thus, besides enjoying the favourable conditions stated in the Law on the Encouragement of Domestic Investments (highlighted previously), these additional incentives created particularly for T&G industry made this industry an attractive destination for both national and international investors.

And to the outcomes

By issuing the above mentioned supporting documents with many kinds of incentives, clearly the Vietnamese state did signal that T&G industry would become a prioritised and key industry in the future. Together with the advantage of a cheaper source of labour and the general legal framework increasingly in favour of both domestic and foreign enterprises and investment activities, those incentives in T&G industry have significantly helped to promote investment in this industry. From a T&G industry of solely SOEs, producing products only for domestic and Eastern European markets, this industry has been transformed into one vibrant leading exporting industry of Vietnam, with the rapid growth in terms of both number of enterprises and total value of assets and investments (charts 6.13a and 6.13b). As a result, the Vietnamese state has been successful in attracting a large amount of domestic and foreign capital to flow into T&G industry, creating a large force of thousands of enterprises in its targeted industry. In other words, it has successfully performed the roles of midwifery and husbandry in this industry.

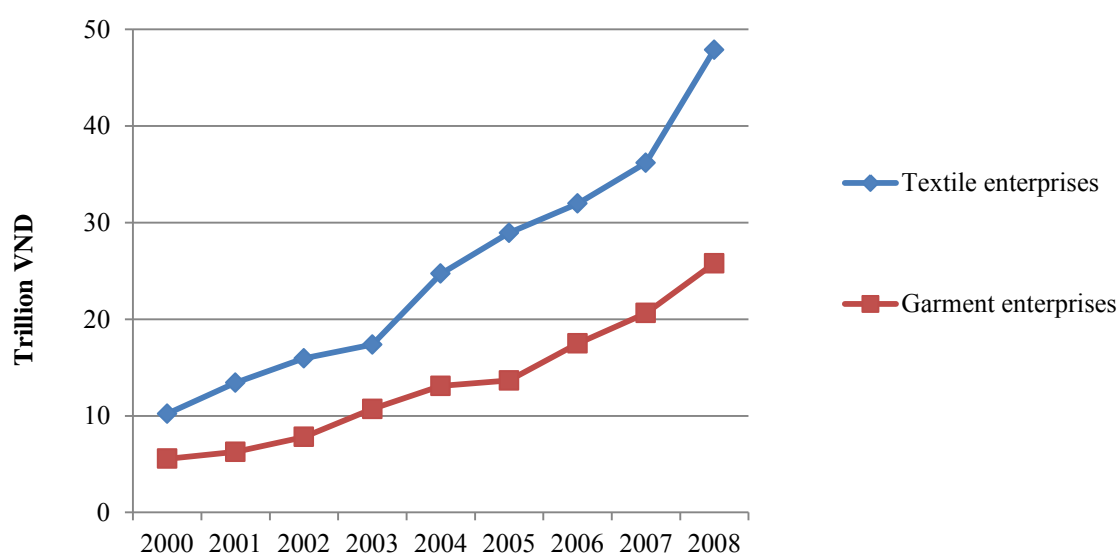
¹ For sewage treatment projects, the government used 100% of non-refundable ODA sources to subsidise them, and used part of ODA loans to subsidise the non-refundable investment items of those projects (MOF, 2001b).

Chart 6. 13a - Total number of enterprises in textile and garment industry



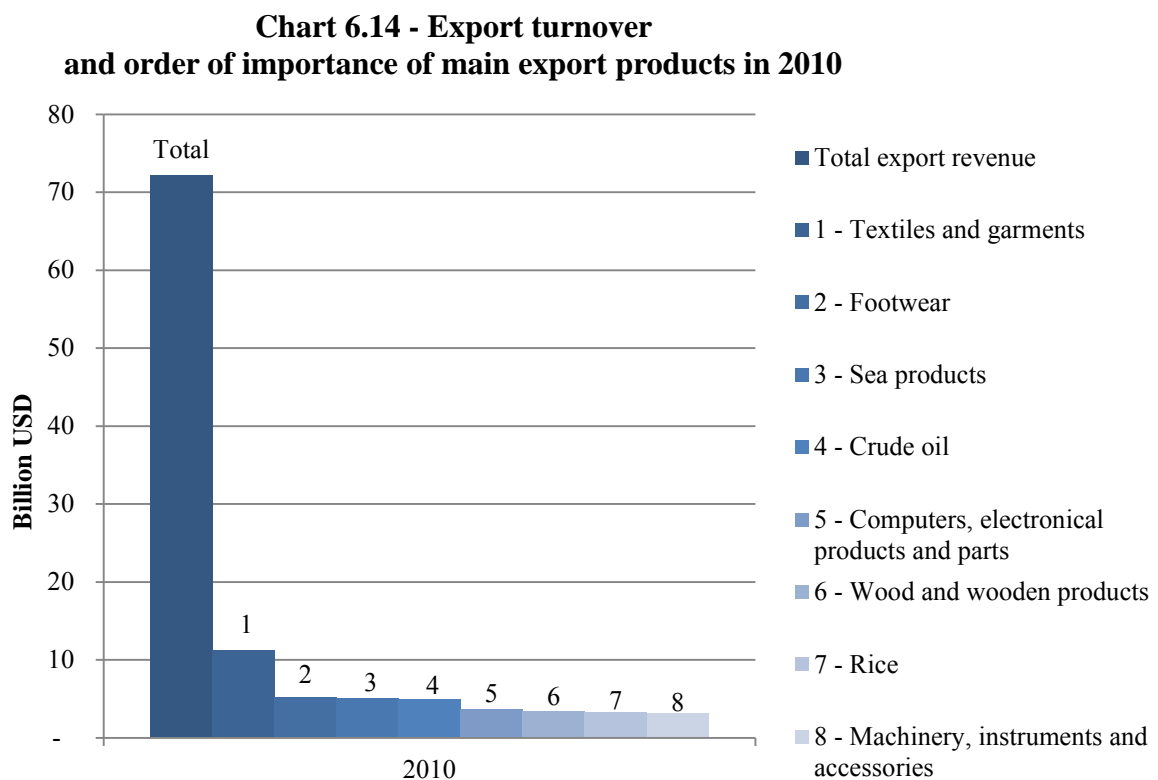
Source: Selected data from 'Number of acting enterprises as of annual 31 December by kind of economic activity', (GSO, 2009q).

6.13b - Total value of fixed assets and long-term investment of all T&G enterprises



Source: Selected data from 'Value of fixed assets and long-term investments at 31 December annually', (GSO, 2009r).

In terms of export turnover, although the 1998 master plan and the 2001 strategy for developing Vietnam's T&G industry were considered 'ambitious' (Nadvi and Thoburn, 2004), the achievements of Vietnam's garment exports in 2010 still went well beyond the planned targets for 2010. Despite the global economy still being in crisis, Vietnam's T&G export turnover in 2010 reached 11.2 billion USD, well above the 'ambitious' targets set for 2010 by the 2001 strategy of 8 to 9 billion USD and by the 1998 master plan of only 4 billion USD (Ky Anh, 2011). This illustrates an outstanding performance of Vietnam's producers in terms of expanding their market share and satisfying buyers' requirements, and shows their dynamism in coping with international market difficulties (Nhan Tri, 2011; Ky Anh, 2011). This might also open up opportunities for this leading exporting industry of Vietnam to climb up the global rank of exporters, as Vietnam is aiming at 'top 3' of world exporters in T&G in the near future (Nhan Tri, 2011).



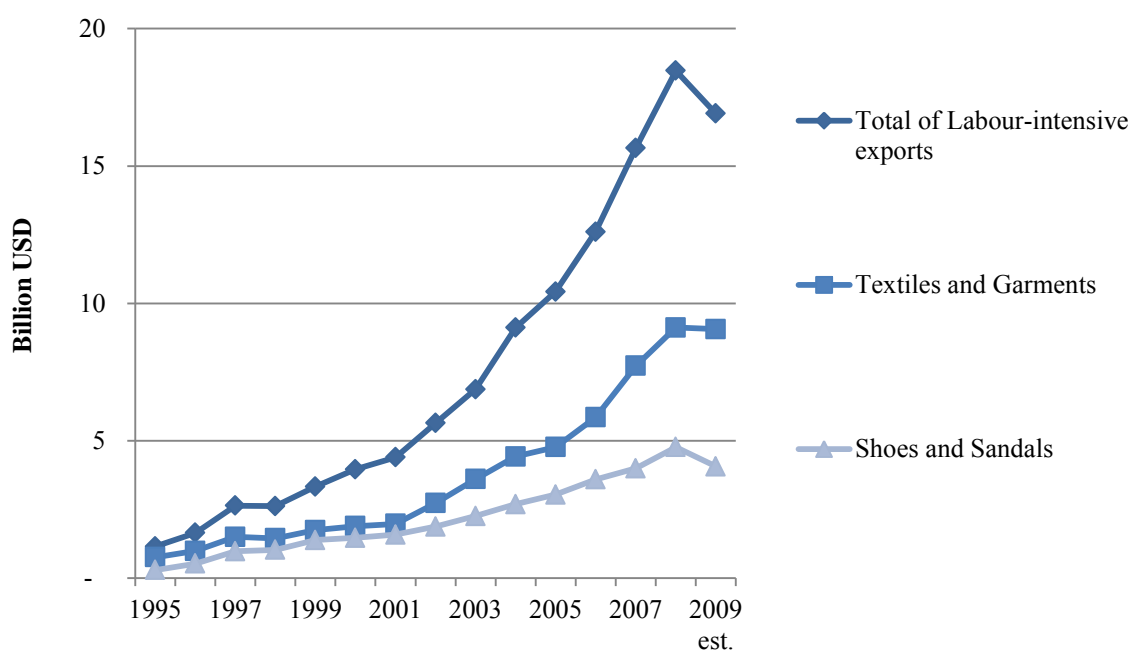
Source: Selected data from '2010 social - economic statistical data', (GSO, 2011c).
 Note: the numbering of sectors indicates the rank of export revenue.

The relation of state policies and outcomes

There is a clear link between the state's supporting policies and the better outcomes in reality. This kind of relation is illustrated in terms of export turnover. Chart 6.15 below shows the annual export turnovers of T&G from 1995 to 2009. It is noticeable that the export turnover of this industry started increasing faster from 2001, when the state approved the development strategy for this industry, coupling with many promoting measures and policies to push up its growth, especially the widening of export markets. The most significant increase was created by the penetration of the US market. Thanks to the profitable incentives created for exporters of this market, export turnover to America rocketed up in 2002 (increased by 1,800%) and 2003 (rose by 500%) (FDI Review, n.d). Then the US government had to impose import quotas on Vietnam's T&G, causing a slowdown in growth from 2004 to 2006 as a consequence.¹ But the initial state support was of vital importance, as on the one hand, it helped to create more enterprises targeting the US market, on the other hand, it directed existing producers to try to penetrate and exploit this huge market. As a result, since Vietnam became a member of WTO, with quotas no longer being applied, the US market have become the biggest for Vietnam's T&G, accounting for more than 50% of the total industry's export turnover. Thus, the initial momentum created by the state was arguably very important. This is also vindicated by the work by Hansen et al. (2009: 1064) concluding that 'initial government support to enterprises has been a statistically significant determinant of firm growth [in Vietnam].'

¹ The imposition of quotas was regulated by the Vietnam – America Textile and Garment Agreement.

Chart 6.15 - Export value of labour-intensive products 1995-2009



Source: Selected data from 'Some main goods for exportation', (GSO, 2010i).

It is arguable that the achievement, in terms of a dramatic increase in export turnover of this industry, reflects the fact that Vietnam has been well prepared to seize the opportunity for ‘mastering the dynamics’ of the global apparel value chain (Gereffi and Memedovic, 2003). As this labour-intensive industry relies mainly on the comparative advantage of a cheaper source of labour, its production place in the global scale will migrate from higher-wage countries to lower-wage ones. As a result, in its global history the prosperity of this industry first appeared in Japan in the 1950s and 1960s, then, moved into other East Asian newly industrialising economies, such as Taiwan and South Korea, during the 1970s and 1980s, before arriving in China in the 1990s (Gereffi and Memedovic, 2003). In the 2000s, Vietnam might start being seen as a new destination for garment production. However, as even though labour-intensive industries rely mainly on the advantage of cheap sources of labour, this advantage of Vietnam alone was, arguably, not sufficient to attract many of foreign investors

at that time. The successful attraction of many foreign investors was, arguably, largely thanks to the additional attractive incentives and favourable conditions that the state created in this industry. Thus, the additional incentives created by the Vietnamese state, both for all economic activities in general and for T&G industry in particular, have clearly played another decisive role in the boom in investments and enterprises, as otherwise the destination would probably have been in many other developing countries (also with cheap sources of labour).

However, apart from this outstanding achievement in terms of export turnover, the T&G industry of Vietnam still has many problems, especially when it is analysed in more detail under the global value chain framework.¹

The defects of Vietnam's T&G industry: challenging the state

When looking at Vietnam's T&G industry in terms of segments of the global value chain (GVC), this industry of Vietnam exposes some defects and limits. For example, if separating textiles from garments, those two sub-sectors have illustrated two different, if not contradictory, degrees of success. While garments have always had an increasing export surplus, the trade balance of textile has been in an increasing deficit. We will look at this industry in more detail through the GVC framework.

Vietnam's T&G under the GVC of apparel

To understand the whole picture of T&G industry, the framework of GVC proves useful and important. Specifically, T&G industry belongs to the category of 'buyer-driven value chain,' in which the buyer (the brand owner, retailer or marketer) plays a leading role (Gereffi and

¹ A value chain is defined as 'the range of activities involved in the design, production and marketing of a product,' and the GVC approach assumes that 'the development of an economy requires linking up with the most significant lead firms in an industry' (see more in Gereffi and Memedovic, 2003).

Memedovic, 2003).¹ Due to the global division of labour, each country might take part in only one or a number of segments of the GVC of apparel. As will be seen hereunder, among the five segments of this chain, Vietnam's producers have been mainly responsible for only one segment.

The first segment of the chain is the production and supply of raw materials, such as natural cotton or synthetic fibres. While Vietnam has gradually increased its capacity of synthetic fibre production, it has remained very weak and almost entirely dependent on imported cotton (Vietrade, 2010).

The second segment is the production of such components as yarns, fibres and fabrics which are the main products of the textile industry. Heretofore, Vietnam's textile has been developed in an imbalanced manner with relative high capacity for producing yarns and fibres, while very low capacity for fabric weaving, printing and dyeing. Therefore, there has existed a paradox in this segment, where two thirds of yarns and fibres has been exported, but 70% of fabrics for garments has had to be imported (DDDn, 2011a).

The third segment is the production of garments in garment factories, which is, as seen in the previous sub-section, where Vietnam has focused most and achieved substantial growth. Evidence is the continuous upgrading of its position in the world of garment exporters, from world number 16 in 2006 to number 10 in 2007, then number 5 in 2010, and now targeting to join 'top 3' of the world exporters (Uyen Huong, 2011; Nhan Tri, 2011). Additionally, Vietnam has also shown considerable upgrading in this segment, when its producers have significantly moved from doing mainly the most basic form of CMT contracts

¹ The 'buyer-driven chain' is distinguished from another category of 'producer-driven value chain,' which is comprised of capital- and technology-intensive industries. Very often transnational manufacturers are the main dynamics of producer-driven value chains, they are also the main actor to coordinate production networks (See more in Gereffi and Memedovic, 2003).

to a higher value and margin form of FOB contracts (Nadvi and Thoburn, 2004).¹ As a result, the margins of Vietnam's producers have become higher, and more importantly, this might open up an opportunity for Vietnam's textile segment, when Vietnam's producers are actively responsible for sourcing fabrics.

In the last two segments, export channels and marketing networks, however, Vietnam's participation has remained negligible, although the producers, notably Vinatex, have attempted to market its products domestically and internationally (Nhan Tri, 2011).² This is understandable as, in principle, in a buyer-driven value chain 'marketers and merchandisers exercise the main leverage ... at the design and retail stages,' where the entry barriers for new firms are very high (Gereffi and Memedovic, 2003: 3). Thus, at this stage of development, Vietnam's T&G might not be expected to be strong in these areas.

In general, in the five segments of the GVC of apparel, Vietnam has participated only mainly in the third segment, the production of clothing in garment factories. Although Vietnam's producers might have not yet been expected to deeply integrated into the last two segments (marketing and retailing), as in these areas the original global retailers and brand owners have still mostly retained their absolute power. The failure in developing the first two segments (raw material and garment component supply) has created many difficulties for the country's producers and the economy as a whole, because of a large quantity of imported inputs annually (DDDN, 2011a; Viet Nga and Thu Huong, 2011). In the following pages, we will look more closely at the first two segments to search for any possible explanations for their failures.

¹ CMT, cut-make-trim, is the most basic form of garment manufacture, in which garment producers just supply labour for cutting, tailoring and packing, besides a tiny part of material as thread. While in FOB contracts, garment producers take responsibility for purchasing fabrics which accounts for a large part of the final FOB contract value. See more in (Nadvi and Thoburn, 2004).

² Vinatex, the Vietnam National T&G Group, is the only state-owned group operating in this sector.

The defects of Vietnam T&G

The Vietnamese state did show its great ambition to develop the raw material supply and textile segments from early time in the development process of T&G industry, however, its policies have not proved effective in those two areas. Since 2001, in the development strategy for this industry, the state has already facilitated these two segments with many more favourable conditions and incentives compared to the garment segment. Those incentives included both direct financial support, such as loans and partially subsidised interest from the State Development Fund; support for developing raw materials as cotton and silk from state budget and ODA sources, and indirect state support through providing infrastructure for industrial clusters, sewage treatments (Vietnam Government, 2001b). In addition, the state did create a “greenhouse” for textile enterprises by imposing high import tax rates on imported fibres and fabrics (WTOCenter, n.d.).¹ Moreover, the state also intended to play the demiurge role in the textile segment, when it aimed at maintaining the state sector as a dominant and decisive player in this area, with a number of additional incentives solely for SOEs, as state guarantee for deferred-payment purchases of equipment and for commercial loans; prompt supplies of working capital (see Vietnam Government, 2001b; MOIT, 2008). And although the state sector (Vinatex) has become a main player in this field, accounting for about 50% of the production capacity for spinning, the state could still not be able to transform these two segments of the industry.

The failure of Vietnam in raw material supplies, notably cotton planting, and fabric making has been very clear. While the spinning capacity has increased threefold, from 120,000 tons in 2000 to 420,000 tons in 2010, the cotton output dropped sharply from 12,000

¹ Before joining the WTO, Vietnam imposed an import tax rate of 20% on imported fibres and 40% on fabrics, compared to 5% and 12% according to WTO commitments, respectively. Online available at: <http://trungtamwto.vn/wto/cam-ket-gia-nhap-wto-cua-viet-nam-trong-linh-vuc-thuong-mai-hang-hoa/det-may>. Accessed: 23 October, 2011.

tons to 3,500 tons in the same period (VCOSA, n.d).¹ Vietnam has, consequently, had to rely almost entirely on imported cotton for spinning firms. In turn, only produced yarns and fibres could not be used domestically, due to the serious lack of weaving, printing and dyeing enterprises. Then, garment factories have had to rely on 70% of imported fabrics and complementary parts, meanwhile, the majority of yarns and fibres have had to be exported. Thus, this has created some “bottlenecks” such as raw material supply and fabric manufacture in the first three segments of the value chain of G&T.

The continuing challenge to the state’s ambition

One reason for the failure of raw material supply is that Vietnam’s natural conditions, in terms of climate and soil, are not very suitable for cotton plantation (DDDN, 2011b). As a result, Vietnam’s cotton is not as competitive as cotton of other countries and as other crops of Vietnam. Thus, it was difficult to implement the mass planting of cotton, or to persuade farmers to replace their current crops with cotton. Therefore, in the most recent development strategy, the state has switched to encourage the development of watered cotton plantation, synthesised fibres and other substituted materials for the future of this segment (Vietnam Government, 2008g). Meanwhile, Vinatex has planned to look for plantation in other countries like Laos (Anh Quan, 2011).

Another reason is because of the ‘technological characteristics of sector’, as pointed out by Evans (1995), that the textile segment has, within which the state role is limited. Although the Vietnamese state has created many incentives for this industry in general, and for textile in particular, a higher-entry barrier segment as textile has remained unattractive to investors. To set up a garment factory, the investor just needs about 300,000 USD with simple technology

¹ Online available at: <http://www.vcosa.org.vn/vn/Gioi-Thieu-Hiep-Hoi/Gioi-Thieu-Chung-Ve-Hiep-Hoi>. Accessed: October, 2011.

and fast-trained labour, while for a textile factory, the investor needs at least 15 million USD, together with complicated technology requiring skilful and well-trained labour (The Hai, 2010). As a consequence, the garment processing segment has attracted most investors, especially non-state domestic and foreign investors, while the textile segment could not.¹ Thus, arguably, such incentives created by the Vietnamese state, although very attractive for garment manufacturing investors, have still been insufficient for a more difficult segment such as textiles.

It is clear that despite the Vietnamese state's ambition of transforming the textile segment, the complexity and difficulty of this industry has still challenged the state's efforts. However, this has also posed a question of the quality of the development strategy and the effectiveness of the measures to implement it. As we saw in chapter 3, this is also the problem of some other important industries in Vietnam, such as automobile, shipbuilding. The lack of competence, dedication and commitment to long-term development of a proportion of bureaucrats and SOE managers, together with the lack of an effectively disciplinary mechanism of reciprocal relations between the state and the business, has undermined the state efforts to fulfil the hard parts of the development plans.

In general, our analysis of the T&G industry of Vietnam has highlighted the successes, defects and failures of this industry, as well as the state policies towards this industry and the possible relation between state policies and the outcomes. It is clear that Vietnam has been very successful in the garment manufacturing sector, where it has continuously upgraded its position in the world of exporters. However, Vietnam's G&T industry as a whole still has many problems, especially in the raw material supply and fabric manufacturing segments.

¹ Non-state sectors have accounted for about 80% of the total production capacity of textile and garment industry.

This reflects the difficulties and problems confronting the Vietnamese state's policies in transforming the more complicated and higher entry barrier sectors, although its policies have proved effective in a less risky and lower entry barrier areas of the industry. This justifies our argument on policy design and implementation problems highlighted in chapter 3.

Conclusion

This chapter shows that Vietnam has made significant progress in its industrialisation process, especially considering its very low starting points at the beginning of the reform. Although the country has still had to rely largely on labour-intensive industries and exports of primary products, the contrast between the two pictures of Vietnam's industry before and after the reform vividly illustrates the significant performance of Vietnam in this economic sector. More importantly, these achievements have set up the foundations for the further development and transformation of the country's industry as a whole in the long run.

Based on our analytical framework, the nature of the Vietnamese state in industry is manifested in a number of angles. Firstly, like the total crisis of Vietnam during the 1980s, the severe inefficiency, imbalance and widespread stagnation in industry during this period also had significant contribution to the emergence of the developmentally-committed leadership in Vietnam, meanwhile allowing and prompting them to act more strongly and radically by accepting the existence of private sectors and a market economy. In addition, not only allowing the private economic entities to exist, the Vietnamese state has continuously carried out numerous supporting measures, such as direct subsidies, tax breaks and exemptions, to both promote and steer the establishment and development of private sectors in targeted areas, including labour-intensive and high-tech industries. Simultaneously, by applying different

laws to regulating different types of enterprise, it has skilfully altered the legal system to protect the domestic sectors from foreign investors, defend the state sector against private capital, while successfully promoting both domestic and international private investments. Apparently, the significant successes in these actions suggest that the Vietnamese state has possessed another two features of the DS, namely, its capacity for both managing the private interests and, more generally, for mastering the market.

One more feature that the Vietnamese state has clearly possessed is selectivity which has been manifested in the use of multiple industrial policies at both macro and micro spheres, as well as the selective roles that the state has played in different industrial sectors. One important point to note here is that it is the Vietnamese state's active control of financial resources and strategic central SOEs that has allowed it to autonomously design and implement its industrial policies, successfully manage the private interests, and effectively play strategic roles in industry (especially the role of demiurge in difficult cases where private capital was totally absent). At the same time, we have also seen the development and advancement of the Vietnamese state's embeddedness which has been especially indicated in its increasingly supportive, promoting and reciprocally cooperative relations with the business forces of the economy.

Additionally, thanks to the coherence of the state leadership and the party-state structure of the state apparatus of Vietnam, wherein the CPV has remained the most influential and the government has been relatively free from the NA (as seen in chapter 3), the majority of the development programs in Vietnam, especially the strategic and large-scale projects, have been consensually compromised and agreed upon by the leadership of Vietnam. Equally important, the continuity of the political regime in Vietnam, with the CPV persistently acting as the only (and powerful) leading party, has allowed the industrial transformation process, or more

generally the overall development master-plan of the country, to have been implemented in an incremental manner. Thus, the Vietnamese state has generally had sufficient autonomy in directing and implementing the process of industrial development and transformation in the post-reform period.

Moreover, thanks to the significant achievements in industrial development and transformation, the standard of living of the majority of the Vietnamese people has been considerably increased. The social welfares, infrastructures have also been improved substantially. This, together with the distinctive and effective way that the Vietnamese state has embedded itself in and controlled the CSV, has actually given more legitimacy to the Vietnamese state along the development process, at the same time helping it better manage the CSV.

However, this chapter has also revealed a number of defects and failure that Vietnam's industry has still had. It is clear that the incentives offered by the state, while successful in transforming some industries or segments of industries, have still failed in some more difficult areas. The textile segment was one example of this kind of failure. In reality, some other industries have also faced the same problems. For example, the shoes and leather industry has also relied mainly on processing of imported materials, leading to the low added value that Vietnam industry has created. Likewise, the automobile industry has also had a rather low domestic content. These weaknesses were caused by the lack of supporting industries in Vietnam and the failure of the Vietnamese state to promote such industries.¹ More originally, such defects or failure of those industries and their segments were the consequence of either poor policy designing or inefficient and distorted policy implementation which sometimes occurs in some industrial areas. Probably, due to the more complexity and higher

¹ Supporting industries refer to the industries producing the inputs for other industries.

requirements of industrial development and transformation, the weaknesses of the Vietnamese state as highlighted in chapter 3 (the lack of a genuine pilot agency and the absence of a competent bureaucracy) have been exposed more clearly in this economic sector.

Despite these two missing features, there have been more elements and features of the Vietnamese state that are close to those of the ideal-typical DS, including all of the most important components of the ideal-typical DS analysed in chapter 2. This has actually facilitated and permitted the top-down development process to take place in Vietnam's industry, wherein the majority of development was initiated by the state, more specifically, the CPV. Although the Vietnamese state has faced many challenges due to the constraints of resources, and despite many international criticisms of some large-scale projects, it has still been resolute and determined in implementing many strategic projects that it perceived crucial to the long-term development of the economy. The decisions to carry out the investment of the first oil refinery with exclusive Vietnam's capital and some large-scale projects in electricity are among such examples. This has vividly shown the strong political will of the Vietnamese leadership in pursuing the sustainability of the country's industry. In other words, many of the strategic industrial projects of Vietnam have been 'politically driven' by its 'developmentally driven' leadership.

In general, the Vietnamese state has shown its great developmental ambition and orientation in industrial sector, and has played a crucial role in the industrialisation development of the country, despite the fact that the limited capacity for strategy design and implementation has made success more difficult in some areas. As in reality a DS is most likely to express in a substantive form, and in a certain degree compared to our synthesised ideal-typical DS, it is possible for us to conclude that, in its industrial sector, Vietnam has indeed had a form of developmental state.

Conclusion

This thesis has demonstrated that the conditions of Vietnam around the reform of 1986 were very favourable for the emergence of a DS, and that the Vietnamese state has managed to reproduce the majority of the ideal-typical elements and features of the developmental state model. This has enabled it to play a developmental and influential role in directing the course of economic development and transformation in the post-reform era as a consequence. The developmental role of the Vietnamese state has been clearly manifested in both two major areas of the economy, agriculture and industry. Although it has still shown some defects and failure in industry, it has been very successful in agriculture, wherein the Vietnamese state has possessed all of the features and elements of the ideal-typical DS.

In addition, this thesis has also shown that Vietnam's post-reform development process has happened in very unfavourable international circumstances for Vietnam. Soon after the reform, Vietnam entirely lost the support from its traditional allies in the Comecon, especially the Soviet Union. At the same time, trade embargo was still maintained by the United States until 1994. Even though Vietnam could open its economy and started increasing its trade with all other countries since the embargo was lifted, the international context dominated by neo-liberalism has not supported the country's economic development, notable in terms of state intervention in directing the course. Indeed, the international financial institutions have imposed significant and increasing pressure for economic liberalisation on the Vietnam state. Despite this, Vietnam has still maintained its state-led development pattern and achieved significant outcomes in terms of economic development and transformation.

Thus, the core argument put forward in this thesis is that even in an era of globalisation, it is still possible and effective for a state to develop and transform its national economy by

following the development path associated with successful developmental states in East Asia such as Japan, South Korea and Taiwan, if the conditions for a DS to emerge are available. In other words, despite increasing impacts of processes associated with globalisation, if having favourable conditions, some states are still able to replicate important features of the developmental state, and manage to lead the development and transformation processes of their economies effectively. This suggests that, when the preconditions for a DS are available in a country, notably a developing one, the developmental state, or the state-led development, model still provides an important example and a useful formulation for it to follow and consult in attempting to develop and transform its economy, even in an era of globalisation.

In this conclusion we will firstly summarise all of the preconditions of Vietnam around the reform and the elements and features that the Vietnamese state possessed in the process of its economic development and transformation, so as to draw conclusions about the nature of the Vietnamese state under the DS perspective. Next, we will summarise the historical trajectory of the development process in Vietnam, in order to show that Vietnam's development trajectory has been quite particular, due to its historical legacies and the international context in which its development took place. Based on this, we will then draw some conclusions about how the development experience of Vietnam analysed in this thesis is significant to the debates about globalisation. At the same time, we will discuss the extent to which the experience of Vietnam can offer lessons to other underdeveloped countries. Finally we will discuss some directions and implications for future researches.

Vietnam as a developmental state

For the sake of convenience, hereunder we will reiterate the theoretical framework that we have already built for our study, before systemising the analyses of the Vietnamese state and its development process that we have already done throughout this thesis. We will see that the Vietnamese state has simultaneously satisfied all of the necessary conditions for a DS to emerge and all of the sufficient criteria for a state to be developmental. Based on this systematic reiteration and summaries, we can draw some firm conclusions about the nature of the Vietnamese state in its post-reform development process.

Restating the theoretical framework

In chapter 2 of the thesis, we built a theoretical framework for assessing a state from the perspective of the developmental state that consists of both the necessary criterion for a DS to emerge in a country and the sufficient criterion for a state to become a DS. On the one hand, we pointed out that the necessary criterion for a DS to emerge in a country is the conjuncture of the four necessary preconditions favourable for the emergence of a DS in this country. These preconditions are the presence of, firstly, intense threats; secondly, a coherent leadership; thirdly, power concentration and policy continuity; and, finally, a system of ‘developmentally driven institutions.’ On the other hand, we synthesised the sufficient criterion for the state of a country to be valued as a DS. Ideally, this sufficient criterion is the possession of all of the ten ideal-typical elements and features of the DS archetype, namely: (1) developmentally-oriented leadership; (2) competent state bureaucracy; (3) pilot agency; (4) embeddedness; (5) sufficient state autonomy; (6) selectivity; (7) capacity for mastering the market; (8) capacity to organise civil society; (9) capacity to organise private interests; and

(10) good performance and legitimacy despite poor human rights. However, we also pointed that the developmental states in reality have found their expression in different substantive forms and in different degrees compared to the ideal-typical DS. They, therefore, often possessed the majority of these elements and features. But they necessarily had to have all of the indispensable components. Thus the sufficient criterion in practice is the possession of the majority of the ideal-typical DS components, but with the following additional requirements.

Initially, the state must have the four most important elements and features among the above ten components of the DS. As we argued earlier, these are the state's developmentally-oriented leadership; embeddedness; sufficient autonomy; and capacity for mastering the market. With these four indispensable components in the early stage of its development process, this state still has to try to build the other elements and features, and must subsequently be able to develop at least two other DS components - namely, the capacity to manage private interests (by taking control of important resources, especially finance), and being selective (in choosing the relevant roles to play in sectors and in using industrial policies) so that it can play strategic roles in the economy. While these six components decide whether a state is developmental or not, the possession of the other components is important to the degree of success that this state will achieve.

Vietnam satisfied the necessary criterion

Using this theoretical framework, the analysis of the empirical data and information of the development process in Vietnam in the last four chapters has provided a clear panorama of Vietnam under the DS prism. Firstly, it has been clear that the preconditions of Vietnam, both in its overall picture (as shown in chapter 3) and in each major branch of the economy - agriculture and industry (as respectively highlighted in chapters 5 and 6) were all very

favourable for the emergence of a DS in Vietnam. The coherence of Vietnam's internal elites and the concentration of the Vietnamese state's power were largely obtained from its historical legacies. In this aspect, as pointed out in chapter 3, the most important features of Vietnam's history are its long feudal history heavily influenced and dominated by the Chinese feudalism, and its modern history (since the CPV was founded in 1930) of 'war after war' status and, more importantly, of 'victory following victory' outcomes. Given these two preconditions, the severe internal and external threats in the late 1970s and throughout the 1980s that Vietnam had to face (including the dilemmas in both agriculture and industry in the late 1980s) strongly facilitated the emergence of a reformist leadership in Vietnam, and urged them to adopt a radical reform of the economy with a system of 'developmentally driven institutions.' Additionally, Vietnam's gradualist approach to reform and its political tradition of respecting the outgoing leaders' suggestion for their successors have been crucial to the continuity of policy throughout the development process in Vietnam. As a result, at the time of the reform, Vietnam indeed had a conjuncture of all of the four necessary preconditions, thus, satisfied the necessary criterion for a DS to emerge.

Vietnam satisfied the sufficient criterion

Regarding the state's constituent components, the four substantive chapters of this thesis also suggest that, in large part, the Vietnamese state has shown the possession of the majority of the ten elements and features of the ideal-typical DS. Although some features have been weak in certain sectors, such as the bureaucracy and pilot agency in industry, we still found them strong and effective in other areas of the economy, such as in agriculture. More importantly, the possession of all of the key components of the DS archetype has enabled the Vietnamese state to play an influential role in directing the course of economic development and

transformation of the country, and achieve significant economic outcomes. We have investigated in details this capacity of the Vietnamese state in the most three important reforms of the country (reforms of SOEs, SOCBs and state budget processes) as well as in the two major branches of the economy, agriculture and industry.

Concerning the political elites of Vietnam, in chapters 3 and 5 we highlighted the struggles in political thinking existing within the leadership around the 1986 reform that stressed the importance of the emergence of a reformist leadership, resolutely committed to the radical reform and long-term development of the country. In addition, we also highlighted a number of leaders with crucial contribution to the furthering of the reform. Due to the coherence of the leadership in Vietnam, with decisions being made largely based on consensus, the continuity of reform policies in Vietnam has been maintained and intensified over time. In addition, the continuity in political regime, together with the political tradition of respecting the outgoing leaders, has also enabled Vietnam to have an incremental process of reform. Thus, since the reform was started, Vietnam has indeed had a developmentally committed and oriented leadership.

As far as the nature of the reform in Vietnam is concerned, through the analysis of the three most important component reforms carried out in chapter 4, the politics of economic development and transformation in Vietnam has been clear.¹ Right from the beginning, the reform of the SOEs has served the state's intention and ambition of building and strengthening the strategic importance of the SOEs under the direct control of the central state. The Vietnamese state has insisted on maintaining a pivotal role for the state sector in the economy, although it has also encouraged and facilitated the development of the private, both

¹ The term politics here is understood, as conceptualised by Leftwich (2008: 6), as 'consisting of all the many activities of cooperation, conflict and negotiation involved in decisions about the use, production and distribution of resources.'

domestic and foreign, economic sectors. What has happened in Vietnam in terms of SOE reform reflects the Chinese-style ‘grasp the big, let go the small’ nature of the reform (Beeson, 2009: 28). Indeed, the strategic SOEs have been used as a multi-function tool for the Vietnamese state to implement industrial policies, stabilise the macro-economy, and generate a major source of revenues. By the same token, there have also been many similarities in the reforms of the banking systems in Vietnam and China, especially regarding the reform of SOCBs. This has also helped the Vietnamese state to retain substantial control over a force of increasingly-strengthened and significantly-improved SOCBs. Moreover, the Vietnamese state’s special efforts to maintain the concentration of resources were also illustrated in the central state’s attempt at retaining the control of another essential financial policy tool - the state budget processes, including both domestic revenues and ODA sources. Despite many changes in the Laws on State Budget, the centrally-controlled sources have remained unchanged and invariably the largest part of the total state revenues. This has enabled the central state to remain dominant in deciding the allocation of all major financial resources (Dang and Beresford, 1998: 93). Thus, with these component reforms, the Vietnamese state has substantially recentralised and retained the central control of all major resources, which has allowed it to actively decide the use, production and distribution of these resources.

The analysis of these three component reforms suggests that during the reform process, rather than being weakened, the Vietnamese state has been continuously consolidated and strengthened. Thanks to the increasing centralisation and concentration of power (resources) the Vietnamese state has been greatly autonomous in deciding its development strategies. Together with the solid organisational structure of the state apparatus - the party-state structure, the concentration of resources has actually provided the Vietnamese state with ‘sufficient autonomy’ in leading the course of economic development and transformation.

More importantly, as analysed in chapter 3, the party-state structure has already provided the Vietnamese state with significant embeddedness, in which the CPV is deeply embedded in the state apparatus and the state is intensely embedded in the society. The embeddedness feature of the Vietnamese state has even been significantly developed, when the state has become extensively embedded in the business force, notably the strategic SOEs, through the reciprocal intimate relationships between those SOEs, SOCBs and the central state. In sum, the Vietnamese state has possessed both sufficient autonomy and embeddedness which have been significantly strengthened and intensified since the reform began.

The fourth component among the four most important elements and features of the DS is the state capacity for mastering the market which, as pointed out in chapters 5 and 6, has largely been seen in both agriculture and industry of Vietnam. By creating and implementing a large number of deliberate subsidies and incentives in strategic areas of both agriculture and industry, the Vietnamese state has successfully managed to channel much of private capital into areas that it targeted to promote. In addition, by skilfully adjusting the legal systems toward a more encouraging environment, it has also been able to substantially boost private investments, especially in promoted industries. Thus, although the Vietnamese state has largely adopted market mechanisms in the economy since the reform, it has still been able to actively control and steer the market forces rather effectively. In other words, it has been able to significantly ‘master the market.’

The foregoing summary has shown that the Vietnamese state has possessed all of the four most important components of the ideal-typical DS, which has actually helped it to develop and possess other elements and features. Regarding the two more components that, as we argued earlier, are also decisively important for a DS at a later stage, the Vietnamese state has shown to have both of them. We can see clearly in chapters 5 and 6 that, since the reform,

the Vietnamese state has been very selective in developing both agriculture and industry. Its selectivity is illustrated in the small number of strategic areas in both agriculture and industry that it focused on at each stage of development. It is also evidenced in the selective roles that the state has selected to play in different sectors. This has allowed it to successfully build a number of strategic sectors, such as producing and processing rice, coffee, rubber, cashew, fish and shrimp in agriculture, and developing shoe, garment, petrochemical, electricity and (a bit of) high-tech sectors in industry.

Simultaneously, we can also see the capacity of the Vietnamese state for managing private interests. This capacity has actually been significantly strengthened, thanks to its success in centralising and concentrating strategic resources as shown in chapter 4. In addition, this capacity is also evidenced in the deliberate and ingenious adjustments of the legal framework, so that it could protect the state sector from private interests and defend domestic investors from foreign capital. Meanwhile, it also managed to promote investments in its targeted destinations. Thus, clearly, the Vietnamese state has shown to possess all of the six deciding components of the DS.

In respect of the four remaining components, besides the strong capacity for managing the society, the other components have been strong in some areas, but weak in some others. This has resulted in the uneven development outcomes in Vietnam. As clearly shown in chapter 3, the Vietnamese state has had strong capacity for managing the civil society, thanks to its historical legacies, its distinctive and effective way of penetrating and controlling the CSV and the continuity of this managing way throughout the process of development. Although this way of managing the CSV has apparently affected the record of Vietnam's human rights, it has largely provided the Vietnamese state with substantial autonomy. However, as analysed in chapters 5 and 6, while the Vietnamese state has had a competent

bureaucratic system and an effective pilot agency in agriculture, these two components appeared rather weak in industry. This has brought about different degrees of success that Vietnam has achieved in these two major branches of the economy. As a result, the degrees of success (performance) of Vietnam's economic development have also been rather uneven. While its agriculture has been considered very successful, its industry has still exposed some defects and failure, especially in upgrading technologies and increasing added value.

In short, it has been clear that the Vietnamese state has had the majority of the elements and features of the ideal-typical DS model, including all of the decisive components. Thus, it has also satisfied the sufficient criterion for being valued as a DS.

Vietnam has had a developmental state

The aforementioned summaries in this section have shown that around the reform of 1986 Vietnam satisfied the necessary criterion for a DS to emerge, at the same time the Vietnamese state emerging from such conditions has also satisfied the sufficient criterion for becoming a DS. This has enabled the Vietnamese state to play a proactively and actively leading role in the overall development process of the country. In both of the major economic branches in Vietnam, the directing role of the state has been clearly essential and has decided their significant successes. The weaknesses in some features exposed in industry can be easily explained, if we consider Evans's (1995) view stating that the characteristics of different economic sectors decide the degree of success of the role that the state plays. Apparently, industry is much more complicated and sophisticated than agriculture, thus it is understandable that the Vietnamese state has still had some defects and failure in transforming this more challenging sector. Nonetheless, Vietnam has still generally shown significant successes in developing and transforming both agriculture and industry, thanks to the state-led

development pattern that it has adopted. As a result, it has been clear by far that, all of our research questions constructed at the beginning of this thesis have been answered. Accordingly, it is possible now to conclude that Vietnam has actually had a developmental state in its post-reform development process.

In addition, the foregoing analytical summaries of the Vietnamese state and its development process has also suggested that, besides satisfying all the necessary and sufficient criteria of a DS, the Vietnamese state has satisfied some important generalisation about the nature of the DS as well. For example, the Vietnamese state has shown its ‘influential role’ in directing the course of economic development and transformation in Vietnam, the most striking feature of the DS generalised by Kohli (2004). With its influential role, the Vietnamese state has successfully utilised its advantages of ‘the latecomer effect’ as accesses to the availability of capital and advanced technologies in the global economy (Gerschenkron, 1962), and actively attracted and proactively articulated itself into many regional and global value chains under the ‘flying geese pattern’ of industrial developments (Akamatsu, 1962). Likewise, as we have seen that, despite many challenges due to the constraints of resources and international criticisms, the Vietnamese state has still maintained resolute and determined in implementing many strategic projects that it perceived crucial to the long-term development of the economy. The Vietnamese state had to do so, as it has seen economic growth as the only way to obtain national autonomy and defence. This exemplifies an outstanding nature of the development process in Vietnam, that is, its politics was ‘developmentally driven’ and its development was ‘politically driven’ - the most encompassing feature of the DS summarised by Leftwich (2008).

The fact that Vietnam has had a developmental state which is the main factor behind the country’s significant development and transformation in the post-reform era has challenged a

number of previous accounts explaining the development process in Vietnam. Vietnam's reform process has been characterised as a 'spontaneous and bottom-up' process, in which the state policies were largely responsive to the pressure from below - the 'fence breaking' activities (Fforde and Vylder, 1996: Introduction), and in which the power of the everyday politics of the citizens rather than proactively led rational changes has been emphasised (Kerkvliet, 2005). Although these claims have merit, it is necessary to understand the difficult struggles around the reform process in which the role of the committed leadership emerging at the reform was of vital importance. Additionally, the adoption of a market economy alone arguably could not guarantee or generate the kind of success that Vietnam has experienced. While this adoption was important in the sense that it introduced market mechanisms into the economy, (and thus satisfied one condition in Johnson's (1982) generalised model - conforming to the market), the developmental role of the Vietnamese state since then has been decisive in the current economic growth. What this thesis has demonstrated is that since the 1986 reform the course of economic development in Vietnam has largely been a 'top-down' process.

One more important point to note here is that, although the Vietnamese state generally lacks a competent bureaucracy and a genuine pilot agency, and the international context during its reform process was in large part unfavourable, it has still achieved significant development and transformation outcomes. This suggests that a favourable international context is important, but not indispensable, to a country's development. In addition, the possession of the most important components of the ideal-typical DS model can help the state to compensate for the lack of some other features. More specifically and, perhaps, also more importantly, it is the strength of the Vietnamese state, with a dominant, disciplined and powerful single party rule for over half a century that has marked it off decisively from many

other weak states in the developing world, especially regarding the capacity for leading and managing economic development and transformation. Thus, it is the ‘stateness’ of Vietnam that has helped it arrive at significant economic development outcomes, despite the absence of a competent bureaucracy or the lack of a genuine pilot agency. As a result, this conclusively supports the argument that the presence of a strong or an effective state in the developing world is still essential to its economic development and transformation.

Vietnam and the differences

Although Vietnam’s achievements are not comparable to other successful East Asian developmental states or China, these development outcomes are actually more significant when placed in the context of its specific history and in the unfavourable international environment during its development process. When Vietnamese policymakers started reforming the economy in 1986, they did so from very low initial starting points, especially in terms of industrial development and infrastructure. At the same time, the international conditions have not been favourable for Vietnam, regarding both material and doctrinal support, especially at the beginning of the reform.

Vietnam and other developmental states

As far as the starting points are concerned, Vietnam was very different from other developmental states which often had an initial industrial base. One example is China, whose pre-reform industry (before 1978) had already contributed a high share to its GDP (46% in 1978), and had a higher growth rate than those of Germany and Japan in their comparable industrialisation phases during 1880-1914 and 1874-1929, respectively (Tsai and Cook, 2005:

58). Likewise, the pre-war industrial base of Japan, especially the legacy of the Meiji era, was very important to its post-war success (Johnson, 1982). In addition, Vietnam had to fight destructive wars until 1975 and some others until the mid-1980s, with enduring consequences that other developing economies did not have to confront. In sum, the initial material infrastructure at the time Vietnam started its reform was much lower than those of other East Asian developmental states.

Regarding international support, while Japan and other East Asian countries enjoyed favourable geopolitical conditions created by their powerful ally - the United States, especially direct aid, trade and investment (Stubbs, 2005) Vietnam obviously remained an opponent of the US even after 1975 (Beeson and Pham, 2012). In addition, while the East Asian developmental states were largely tolerated by the United States, when they adopted state-led development and relied intensively on conventional measures of leverages and protections, such as subsidies, tariffs and quotas (Stubbs, 2005), Vietnam has received substantial pressures from the international financial institutions on economic liberalisation. Even though China did not enjoy such support as the other East Asian developmental states, it could start its peacetime development as early as 1949. Thus, while China's development was facilitated by a degree of 'historical continuity' in post-Mao-era institutions (Tsai and Cook, 2005: 58), Vietnam had to change much more radically since the beginning of its reform, notably regarding the creation of private economic entities. Thus, compared to all other developmental states, the development process of Vietnam took place in a much more unfavourable international context. Together with the very low starting point, this lends further weight to the idea that the achievements of Vietnam have indeed been very significant, and the Vietnamese state has played a crucial role in economic development and transformation in Vietnam.

The very historical legacies of Vietnam have largely contributed to the conjuncture of the preconditions necessary for a DS to emerge, and to the formation of such state elements and features as those of a DS. However, it is also these historical legacies that have limited the development of such components as a competent state bureaucracy or a genuine pilot agency. Because Vietnam's modern history went along with a series of wars, so, for a long period, people's loyalty was preferred to people's competence. This has made it very hard for the Vietnamese leadership to increase the competence of its bureaucratic system, although special efforts have been made over that last decade, and improvements have been seen in some areas of the economy, such as in agriculture. In addition, Vietnam has still remained a communist country (albeit notionally), the organisational structure of its state facilitates the concentration of power in the hands of the Politburo rather than any ministry-level agency. Consequently, this has affected the formation of such powerful pilot agencies as other 'genuine' ones of the East Asian developmental states.

Moreover, the differences in internal historical legacies and external contexts have also made Vietnam's development trajectory contain both traditional characteristics like other East Asian developmental states and some distinctive nuances that might only be suitable for Vietnam. As we have seen, the conventional features of a DS were largely employed in the industrial sector. In this area, the Vietnamese state has mainly played the demiurge role in industries that private investors had not been capable of or interested in becoming involved, such as energy generation and petrochemicals. Meanwhile, it has principally played the roles of midwifery and husbandry (by applying supportive policies and providing necessary preconditions) in sectors that could attract private investors, such as labour-intensive industries. In addition, the state has identified a number of prioritised and key industries together with favourable policies and measures supporting the development of those

industries. The Vietnamese state was able to carry out such industrial policies as it has been active in deciding the allocation of financial resources, while at the same time having the force of centrally-controlled SOEs to undertake the implementation of projects in strategic areas - even where there were few private investors.

The distinctive developmental features of the Vietnamese state were observable in agricultural sector, including fishery and forestry. The creative way of directing and coordinating agricultural development that the Vietnamese state has used proves effectively relevant to the distinctive conditions of Vietnam. To many outside observers, the success of Vietnam's agriculture was likely associated with the country's natural 'comparative advantages' and decision by the Vietnamese state to dismantle the cooperative system (accepting household economic entities). However, as pointed out in chapter 5, Vietnam has had such obstacles to agricultural development that the farmers themselves could not increase agricultural production without state assistance. Therefore, the creative and distinctive roles that the Vietnamese state has played in leading the development of Vietnam's agriculture are indispensable to its success.

In sum, the differences in the internal historical legacies and the international context in which the development process has taken place have made the historical trajectory of the developmental state in Vietnam quite particular. Although Vietnam's development process has generally been in keeping with the DS tradition, many of the measures and tools that the Vietnamese state has created and employed are rather distinctive, and might only be most suitable for the case of Vietnam. As Vietnam is still notionally communist, hereunder we will see the differences and similarities between an ex-communist state and a DS.

Ex-communist states and developmental states

In essence, the style of development pursued in Vietnam needs to be seen in the context of the overarching principle of the Vietnamese state, more specifically the CPV. Although the CPV recognised that reform of the economic system was unavoidable if the country was to escape from severe underdevelopment, the central role of the CPV and thus the Vietnamese state has been to maintain the predominant and decisive role of the state sector in the economy. This central principle is originated from the final target of the country: building ‘a socialist-orientation market economy’ with the domination of the state economic sector (CPV, 2008).¹ Again the rationale for this path of development was originally rooted in the fact that the leading political organisation in Vietnam is still the communist party whose ideological orthodoxy is Marxist-Leninism. Thus, although accepting the market economy as the necessary mode of development, the state has still endeavoured to keep its goal of ‘strengthening the state economic sector, making the state and collective economic sectors be becoming the firm bases for the economy’ (CPV, 2008).

It is not only ex-communist states that want to maintain the influential role of the state over the economy, however, the transition from a system of central planning with almost absolute state control over the economy to a market economy by adopting a gradualist approach made it easier for the Vietnamese state to retain control of the economy.² In addition, many other legacies of the central planning system, most prominently the ways of controlling the masses (including the press), the organisational structure of the party-state system and the relations between the state and the society, continue to provide the Vietnamese

¹ Precisely translated from this resolution (CPV, 2008) the target of the Vietnamese state should be a ‘socialist-orientation market economy’ [nền kinh tế thị trường định hướng xã hội chủ nghĩa] which is rather different from what Beresford (2008) wrote as a ‘market-oriented socialist economy under state guidance.’

² The ideological orthodoxy of communism in Vietnam is Marxist Leninism which stresses the domination of the state economic sector in the economy.

state with a good deal of autonomous decision-making power. Thus, many of the institutions of the central planning period have been reformed and actually enabled the Vietnamese state to obtain many features and characteristics of a DS.

The possession of such DS features suggests that the Vietnamese state has largely been influenced by the experience of other East Asian developmental states. In addition, the similarities in political regimes might have also made the Vietnamese state informed by the Chinese experience before starting its own process of reforms, especially concerning the SOE and SOCB reforms. However, regarding these reforms, it is still not definitively proved “who learned what from whom” as different accounts still emphasise different aspects of the reform process at different times in these two countries.¹ Indeed, it is not absolutely critical here whether Vietnam learned directly from China. The more important point for this thesis is that what Vietnam did is quite similar to China and in the same spirit as successful East Asian countries such as Japan and South Korea (Dodds, 1996, Masina, 2006: 116).

Moreover, while the development path of Vietnam has been rather similar to that of China, it has been very different from other ex-communist countries adopting ‘shock therapy’ in the reform periods. For instance, while the post-communist countries in Central and Eastern Europe mainly took large-scale privatisation as the method to quickly reform their SOEs, China and Vietnam cautiously and gradually reformed their SOEs, so as to maintain the control of them (Dodds, 1996).² This makes China’s and Vietnam’s approaches similar to that of other successful Asian countries as Japan, South Korea, Taiwan and Singapore, when ‘their

¹ Dodds (1996), for example, showed that ‘breakups,’ ‘mergers’ and ‘enterprise groups’ in China took place in 1992 - about two years earlier than in Vietnam, but Tsai and Cook (2005: 52) pointed out that the ‘far-reaching state sector reforms’ in China occurred only in late 1997 - which is even later than the most important time of the SOE reform in Vietnam (marked by two decisions 90/TTg and 91/TTg of July, 1994).

² While China and Vietnam attempted to consolidate their SOEs, Russia, by contrast, undertook the world’s largest privatisation between 1992 and 1997 when it started reforming the economy. But Russia has subsequently had to implement a large scale process of nationalisation since 2005 to regain state’s power (Åslund, 2009).

governments all initially played an active role controlling the economy and promoting growth' (Dodds, 1996: 739). Thus, it seems that the gradualist approach is likely to allow ex-communist states to utilise the methods and structures of the DS in the process of reforming and developing their economies.

Vietnam's experience and the debate about globalisation

As we analysed at the beginning of this thesis, the nature of globalisation involves the exercise of power by the most powerful states which, via their international institutions, have intentionally and actively facilitated a move toward a more 'open,' internationally interconnected and interdependent global economy (Beeson, 2004). To promote economic integration, those functional institutions have attempted to apply a set of prescribed policies to the majority of developing economies (see Williamson, 1990). This type of 'one-size-fits-all' formula has been extensively used to support liberalisation of trade, finance and investment, thus encouraging free markets and minimising state intervention in the allocation of economic resources and private economic decision making (Garrett, 2000).

However, the experience of Vietnam studied in this thesis has shown that it is the 'stateness' of Vietnam that has distinguished it decisively from many other weak states in developing countries, and has enabled it to achieve such significant development and transformation outcomes. This actually challenges the neoliberal orthodoxy which has attempted to help promote economic growth in the developing world by applying 'anti-statist' and 'pro-market' policy measures and development programs. In addition, the case of Vietnam has also suggested that the building of a state is very much dependent on the availability of the internal cultural, socio-economic and political resources of that country.

More specifically, to construct a developmental state requires the country to satisfy all the necessary preconditions for a DS to emerge. Furthermore, the majority of those necessary preconditions are the very products of the country's historical legacies. Thus, to construct a type of state in a country, it is necessary to base on the distinctive historical conditions of that country. This also challenges the neoliberal attempt at applying 'one-size-fits-all' development model to many different countries of the developing world. In sum, the experience of Vietnam suggests that to successfully develop and transform the economy, developing countries actually need more state than less, especially the type of effective or developmental state. And more importantly, the type of state that is most effective to a country must be built based on its historical legacies.

The virtue of the developmental state

The post-war spectacular economic success of a number of East Asia countries, in which the developmental states played a central role (Johnson, 1982; Amsden, 1989; Wade, 1990), suggests that it is possible for 'third world' countries to 'catch up' with the developed economies in the core. As a consequence, the developmental state model has been copied by other states in the region and adjusted to each country's distinctive conditions. Although the differences in historical legacies have affected the capacity of different states for reproducing the components and effectiveness of the ideal-typical model (Jomo, 2004; Doner et al., 2005), the fact that Asia is currently the most dynamic region in the world (IMF, 2011) strongly suggests that the developmental state model has made a substantial contribution to the evolving of the international economic order.

Although this economic model has been significantly challenged by processes associated with globalisation (Held et al, 1999; Beeson, 2004), there have still been many

opportunities for national states to intervene in their economic development processes (Jomo, 2001; Dent, 2003; Weiss, 2003a; Cherry, 2007; Radice, 2008; Hundt, 2009). This is particularly true in the context of the current (since 2008) global crisis, when even developed countries have had to count on heavy state intervention, as well as rely on savings and investment from emerging market economies to cope with the ongoing recession. These developments have created renewed interest in the idea of 'state capitalism' (Bremmer, 2009), and the persistence of powerful, interventionist states. Indeed, it has been argued that, capable states have become even more necessary for countries attempting to transform their economies in the more complicated context of economic integration (Beeson, 2006). As a result, the ambition and orientation of states to become developmental remain widespread, especially in developing countries.

Hence, the possibility that new developmental states will emerge in those countries seeking to replicate East Asia's success remains high, although they can only succeed if the preconditions necessary for a DS are available. This suggests that even though processes associated with globalisation have circumscribed the ability of national states in leading the course of economic development, it is still possible for states to play a developmental role and experience some success when doing so. Indeed, it may still be more effective for states to cope with the multiple challenges of globalisation by playing a developmental role and leading the course of economic development than not doing so.

On the whole, the Vietnamese state has largely followed the example of the successful East Asian developmental states, and has managed to achieve significant economic growth and development, despite substantial influence of processes associated with globalisation. This strongly suggests that the developmental state, or more generally the state-led development, model remains a viable and persistent feature of the development processes of

some countries even in an era of globalisation. In other words, although a favourable international context is important to a country's economic development and its degree of success, this factor is not an indispensable condition. This suggests that, in national economic development, the role of agencies - the local states in general, or the Vietnamese state in particular, is decisive and more important than that of structure - the international context. Thus, even in the current context of globalisation, it is still possible for a developing country to transform and develop its economy successfully. In doing so, the developmental state remains a useful economic model for developing countries to consult and follow, although this type of state requires a demanding set of necessary conditions. Thus, a country attempting to replicate this model must first consider its own historical legacies.

Historically, since this economic model first appeared in Japan in the late 1950s, it has served as a potentially useful example for the developing countries to follow in attempting to industrialise their economies and 'catch up' with other more industrially advanced economies. But this economic model has also been substantially challenged by processes connected to globalisation. This has triggered a lively debate for and against this economic model by practitioners and scholars discussing issues related to the 'vicissitudes' of the developmental state. Against this backdrop, the case of Vietnam studied in this thesis vividly validates the argument supporting the persistent value and possibility of the developmental state even in an era of globalisation.

Lessons and directions for future studies

The analysis of the development process in Vietnam has highlighted both the successes and failures of Vietnam's policy making and implementation. It is noteworthy that the majority of

the successes of Vietnam's economic development have largely been based on the utilisation of the opportunities created by the country's increasing integration into the international economy. This is evidenced in the fact that the majority of Vietnam's successful sectors are all highly export-oriented, from agriculture to labour-intensive industries and even to high-tech industries. By contrast, the failures of the policy-making and implementing processes of Vietnam have mainly been due to the endogenous politico-economic factors of Vietnam, such as the failure of constructing a meritocratic bureaucracy or a genuine pilot agency. This suggests that domestic politics is indeed still crucial to the successes or failures of a country, even in the context of globalisation. In addition, it also suggests that processes connected with globalisation have actually given nation-states many opportunities to transform their economies, especially regarding their access to a greater market, and if these nation-states are capable of utilising such opportunities (Weiss, 2003b).

The successes and failures of Vietnam's policy making and implementation provide important lessons for policymakers in other states attempting to transform their economies by following the developmental state model. While utilising the dynamics of globalisation is crucial to successes, the improvement of domestic politico-economic institutions is of vital importance to avoid failures of the policy process. The development paths of some sectors of Vietnam, such as agriculture, suggest that the state has to profoundly take into account the distinctive conditions of its own economy so as to be able to design the most suitable and effective developmental policies and measures for each economic sector. In addition, some limits of the successful sectors of Vietnam also provide useful lessons for a state to circumvent the obstacles to economic development.

Besides suggesting the importance of sustaining long-term development and avoiding the loss of development momentum, Vietnam's developmental experience also reaffirms the

development path for a late developer. For instance, the fact that Vietnam's agriculture failed in the large-scale cooperative mode of production, but has been successful when based on manual and small-scale production suggests that large-scale production cannot be implemented successfully simply because of the political or ideological will of the state. However, for the sustainable development of agriculture to progress, the Vietnamese state may need to adjust its policies so that agriculture can absorb technological improvements and utilise the advantages of large-scale production. Likewise, the fact that Vietnam's industry still relies on labour-intensive products with low added value due to the high degree of dependence on imported inputs suggests that this is the usual path that a late developer must follow, as it attempts to increase the value of production. In the long term, successful industrial development may mean that the state must assist the economy to escape this situation by raising the added value of its final products through production rationalisation. Last but not least, the Vietnamese state's special efforts to construct high-tech industries imply that while focusing on utilising the comparative advantages of the country, the state should not forget to set the basis for this kind of industries, although they might not contribute much to the country's GDP initially, they are important for the longer-term development of any economy.

There are also a number of points emerging from this thesis that might provide an important starting point for further research. Although the empirical content of this thesis has focused primarily on the case of Vietnam, there are important comparative questions about the role of finance, regional development, or the impacts of foreign capital or ODA, that could usefully be explored to establish more clearly how much Vietnam's success (and failures) is attributable to specific contingent facts, and how much is attributable to more universal considerations. In addition, further comparative work on the historical and contemporary

experiences of Vietnam and China would obviously be useful given the many similarities between these two countries.

More generally, by combining within-case analysis with cross-case comparisons we can have ‘the strongest means of drawing inferences from case studies’ (George and Bennett, 2005: 18). Future researchers might, therefore, want to think about adding more cross-case comparisons (with both other archetypal developmental states and other rapidly emerging economies in the world) to this single-case study of Vietnam to arrive at a more comprehensive conclusion about the developmental state in the context of globalisation.

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